INTERNATIONAL MONETARY FUND

IRELAND

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

August 21, 2012

KEY ISSUES

Context: After an exceptionally deep banking crisis at a public cost of some 40 percent of GDP, the Irish authorities' steadfast efforts have restored stability. Ireland's highly open economy resumed modest growth in 2011 even as domestic demand continued to decline. Banks have been recapitalized and significantly downsized. Substantial fiscal consolidation has been implemented while preserving social cohesion. Bolstered by hopes of strengthened European support, these efforts have rebuilt market confidence, as evident in Ireland's recent return to the sovereign bond market.

Risks: Public debt is high and still growing. The banking system is not yet serving financing needs, including of the job-intensive SME sector. Households must contend with heavy debts and depleted net wealth. High unemployment compounds the financial distress, undermines skills, and drives emigration. The euro area crisis creates uncertainty for exports, financial markets, and fixed investment. Thus, risks to economic recovery remain large, with profound implications for debt sustainability.

Policies: Ireland must continue to deliver on three main fronts:

- Intensive financial sector reforms to restore banks' ability to extend sound credit to help revive domestic demand. The central challenges are to arrest asset quality deterioration while dealing with debt distress and to regain bank profitability.

- Growth-friendly fiscal consolidation to stabilize public debt. The strategy needs to combine careful expenditure targeting, reforms of core government services, and revenue base-broadening including the introduction of a value-based property tax.

- Broad based efforts to reduce unemployment, including additional well-trained case workers to support jobseekers, regular monitoring of training outcomes, and reforms to the structure of social benefits.

Support: Success hinges on external economic recovery and more European support. Euro area leaders have pledged to break the vicious circle between banks and sovereigns by enabling the ESM to recapitalize banks directly, and to examine the situation of the Irish financial sector with a view to further improving the sustainability of the well-performing adjustment program. Meeting these commitments will provide stepping stones toward Ireland's recovery and durable return to market financing.

Approved By
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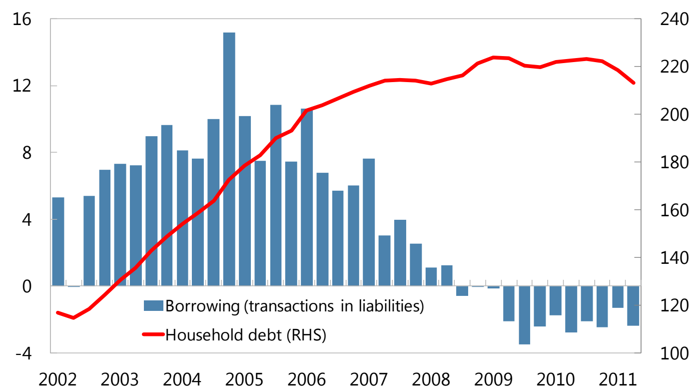
BACKGROUND—AN EXCEPTIONALLY DEEP BANKING CRISIS

1. **The "Celtic Tiger" years came to an abrupt end in 2008**. Suddenly, Ireland had to contend with an interlocking sovereign–banking–real economy crisis. As property prices collapsed, banks' losses on real estate loans mounted and domestic demand fell sharply. Fiscal deficits gapped outwards and public debt catapulted from 25 percent of GDP in 2007 to over 90 percent by 2010. Deepening uncertainty about the ultimate scale of the banking sector losses, and hence growing doubts about public debt sustainability, drove a brutal switch in market sentiment in the Fall of 2010, cutting the sovereign off from market financing and compelling the authorities to resort to EU and IMF financial support.

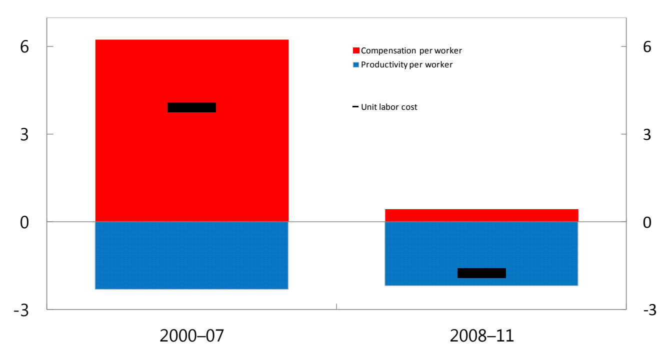
2. **The boom years stored up immense problems**. Following a decade of export- and FDI-led growth supported by broad-based productivity gains, from about 2003 on the Irish economy embarked on a domestic boom underpinned by lax lending. Stiff competition for market share from foreign-owned as well as domestic banks pushed underwriting standards lower, and the feedback effect of rising collateral values fuelled the leveraging process. Rapidly rising property prices also drove high fixed investment in commercial and residential property, and a positive wealth effect fed private consumption, raising incomes and employment. Wages and prices rose, eroding competitiveness and compressing real interest rates. The integration of the Irish financial system into the broader euro area financial landscape, as well as the apparently strong fiscal position of the sovereign, gave Irish banks unfettered access to wholesale funding that turbocharged their asset expansion. In the five years to mid-2008 the net foreign liabilities of the Irish banking system jumped from about 20 percent to about 70 percent of GDP, and wholesale funding rose to 55 percent of assets. Regulators—and the IMF, in its surveillance role—failed to issue proper warnings as a vast commercial and residential property bubble inflated and bank assets grew to some 500 percent of GDP (see Honohan report, May 2010, and Nyberg report, March 2011).

Household Borrowing and Debt
(Percent of household disposable income)



Sources: Central Bank of Ireland (CBI); and Central Statistical Office (CSO).

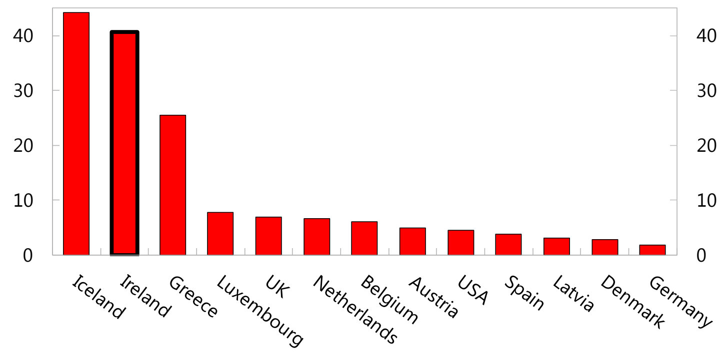
Unit Labor Cost Growth 1/
(Percent)



Sources: CSO; Eurostat; Haver; and IMF staff calculations.
1/ Average annual growth rates. Productivity gains depicted with negative sign.

3. The post-Lehman global financial turmoil tipped the vulnerable Irish banking system into a deep crisis. Ireland's property price downturn began in 2007. After facing heavy losses on property-related assets in the Spring of 2008, the banks suffered a run on wholesale funding in the Fall—prompting massive recourse to Eurosystem liquidity support. Government actions included a blanket guarantee from September 2008, the transfer of large distressed property development and commercial real estate assets from banks to the National Asset Management Agency (NAMA) from April 2009, large scale support for two failed banks (Anglo Irish and Irish Nationwide Building Society), and large equity injections in other banks (Section IV.A). With a fiscal cost of some 40 percent of GDP, Laeven and Valencia (2012) consider Ireland's banking crisis the second costliest in advanced economies since at least the Great Depression.

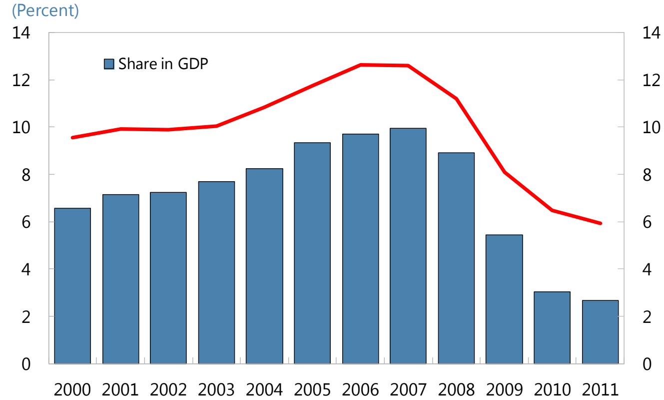
Fiscal Cost of Ongoing Banking Crises, 2011 1/
(Percent of GDP)



Source: Laeven and Valencia (2012).
1/ Sample of ongoing systemic banking crises. Recapitalization and other restructuring costs, excluding liquidity support and asset guarantees. Greece includes bank recapitalization funds under the 2012 program (23 percent of GDP) although these funds had not been fully used as of May 2012.

4. A full-fledged economic bust ensued. A steep decline in construction activity drove the country into recession from 2008 with the sharp world trade contraction in 2009 adding to the shock to Ireland's highly open economy. Financial accelerators, having put the economy into overdrive in the boom, played a major procyclical role in the bust as new lending stopped. Falling property prices dramatically reduced household net wealth, depressing consumption. Employment fell by 13 percent in the three years to 2010, and the unemployment rate jumped by 9 percentage points to 13.6 percent in 2010, dampened by declining labor force participation and the return of net emigration. Slack in the economy created deflationary pressures, with the CPI falling by 5½ percent from 2008 until 2010.[1] Altogether real GDP fell by 8 percent over 2007–10, with nominal GNP slumping by 20 percent in the same period.

Construction Sector Share in GDP and Employment
(Percent)



Sources: Eurostat; CSO; Haver; and IMF staff calculations.

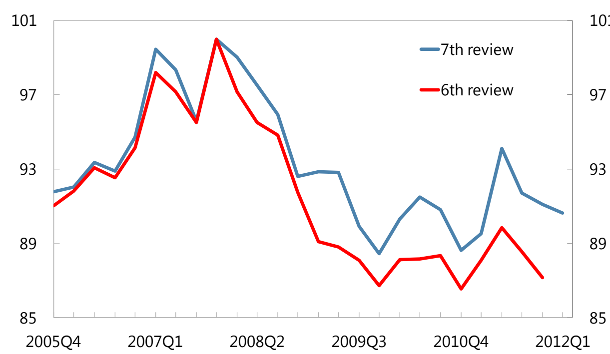
[1] Price declines were broad based, with the share of the 616 items in the CPI that fell on an annual basis peaking at 84 percent in March 2010; see Colin Bermingham, Recent Trends in Irish Expenditure and Prices.

5. Confidence in the fiscal position crumbled, primarily as a consequence of the close sovereign–bank interlinkages. During the boom the underlying fiscal position weakened (Section IV.B), and an erosion of tax bases made for heavy reliance on property-related revenues such as stamp duties. Accordingly, tax revenues fell hard when the economy turned, down by 30 percent from 2007 to 2009. This, together with rising social outlays, drove up the deficit (before bank support) to over 10 percent of GDP per year in 2009–10, from fiscal balance in 2007. By 2010 these deficits raised net public debt by 33 percentage points of GDP. On top of this flow shock, support to banks heavily burdened the public balance sheet. By 2010 the government had recapitalized the banks to the tune of €46.3 billion, equivalent to 30 percent of 2010 GDP, with no cushion from burden sharing on banks' senior debt as considered appropriate by the ECB due to concerns about pan-European financial stability.[2] Given the already heavy public debt burden, high market uncertainty around the scale of banking sector losses yet to be recognized meant that by late 2010 the government was no longer in a position where its own guarantee could maintain confidence in the banks. Indeed, when the banks faced renewed private funding outflows, the sovereign also lost access to market funding, necessitating official support.[3]

RECENT DEVELOPMENTS—A TENTATIVE EXPORT-LED RECOVERY

6. Ireland returned to growth in 2011, but relied exclusively on exports (Table 1). Having declined for the three preceding years, real GDP grew by 1.4 percent y/y in 2011.[4] Export growth of 5.1 percent y/y led the way, with slowing growth in goods exports offset by continued strong services growth. This performance benefitted from the relatively acyclical composition of exports (chemical and pharmaceutical products are around one-third of the total and computer services around one-fifth), as well as the importance of markets outside the euro area (U.K. and U.S. purchasers take some 45 percent of Irish exports). Significant unwinding of past competitiveness losses also assisted, with the real exchange rate on a unit labor cost basis falling 20 percent from its 2008 peak. This reversal benefits from a 5 percent nominal effective exchange rate decline, and from lower labor costs—especially relative to those in the euro area—but is largely driven by productivity gains from labor shedding, though these are partly compositional given high job losses in less productive sectors. Nonetheless, staff estimate that some modest exchange rate overvaluation remains, including in light of the large negative net international investment position (Annex I).

Real GDP
(Pre-crisis peak, Q4 2007=100)



Sources: CSO; Haver Analytics; and IMF staff calculations.

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[2] This is part of the total recapitalization cost of €64.1 billion, or some 40 percent of GDP.

[3] For a description of the EU–IMF supported program, see Ireland—Request for an Extended Arrangement.

[4] Real and nominal GDP data for 2008–11 have recently been revised upward by the Central Statistical Office (CSO), affecting historical ratios to GDP.

7. **Domestic demand, on the other hand, contracted by 3.7 percent y/y in 2011**. The decline in domestic demand was broad-based, with fixed investment continuing to lead the fall as domestic and external uncertainties—together with credit supply constraints on some firms and households—lowered private investment, and fiscal consolidation limited public capital expenditure. Private consumption declined by 2.4 percent y/y, exceeding the decline in household disposable incomes, as the household saving rate rose to 14 percent—well above the pre-crisis average of 8¼ percent—in order to rebuild balance sheets and reduce high debt. Fears over job prospects likely added to precautionary saving, as employment fell a further 2 percent and the unemployment rate climbed past 14 percent.

8. **The current account remained in modest surplus in 2011 while deflation came to an end** (Table 5). With domestic demand weak, imports declined moderately in 2011, contributing to a 3.3 percentage point of GDP rise in the trade balance, almost all of it in services. However, these gains did not feed into domestic incomes and spending as they were offset by a 3.5 percentage point of GDP rise in income outflows—principally to the parents of the multi-national firms that lead Irish exports—leaving the overall current account surplus unchanged at about 1 percent of GDP. These higher income outflows also meant that real GNP declined by 2.5 percent even as real GDP grew. Following deflation in 2009–10, low but positive inflation was recorded in 2011 in both the GDP deflator and HICP, in part reflecting energy price rises.

9. **Recent data point to modest growth in 2012, though signals are mixed** (Figure 1). Solid budget revenues in H1 suggest activity broadly in line with projections. Other indicators are less clear:

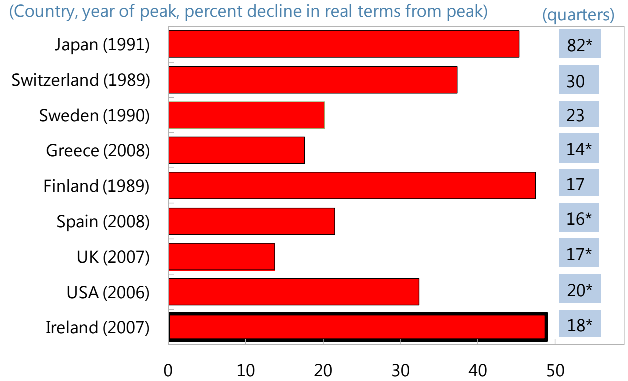
- ***Real GDP grew 1.2 percent y/y in Q1 2012, but fell 1.1 percent q/q***. The 6.1 percent y/y rise in export volumes was notably robust. Declining consumption was the chief drag on growth, although this in part reflected the boost to consumption in Q4 2011 ahead of the VAT rate hike. Real fixed investment grew 8 percent, but this was mostly a one-off effect from aircraft purchases, largely offset by higher imports.
- ***The unemployment rate hit 14.8 percent in Q1 2012***. Total employment fell 1 percent y/y, with job shedding in nine of 14 sectors, including further losses in construction.
- ***After a surplus in 2011, the current account balance returned to deficit in Q1 2012 in part reflecting some seasonality***. Service exports performed well in Q1, with an almost 20 percent increase in computer service export values, although this was offset by significant income outflows.
- ***High frequency indicators point to consumption declining much as expected, and continued buoyancy on the external front***. Consumer sentiment improved somewhat in June 2012 and the pace of decline in retail sales (excluding automobiles) slowed to 1½ percent y/y in H1, from a 2.6 percent decline in 2011. Industrial production expanded 5.3 percent y/y in Q2 and the PMI index of new export orders remained above 50, even increasing in June and July, in contrast with most euro area countries.

- ***The HICP inflation rate remained just under 2 percent y/y, compared with 2½ percent for the euro area, with prices flat in Q2 after jumping 1¾ percent in Q1***. Energy and administered prices remain the most important drivers.

10. The correction in house prices, one of the largest in recent history, has continued (Figure 2). The decline in nominal residential property prices slowed to 14.4 percent y/y in June 2012. The index has halved since its peak in 2007, eclipsing recent U.K. and U.S. house price declines and comparable to the Japanese and Nordic experiences of the 1990s. As yet, clear signs of stabilization are limited to Dublin house prices (excluding apartments), which, after dropping by 55 percent, have been flat in H1 2012. Rural areas, in contrast, still show signs of oversupply.

Real Estate Prices in Recent Crises

(Country, year of peak, percent decline in real terms from peak)



Sources: BIS; OECD; CSO; and IMF staff calculations.

* Ongoing.

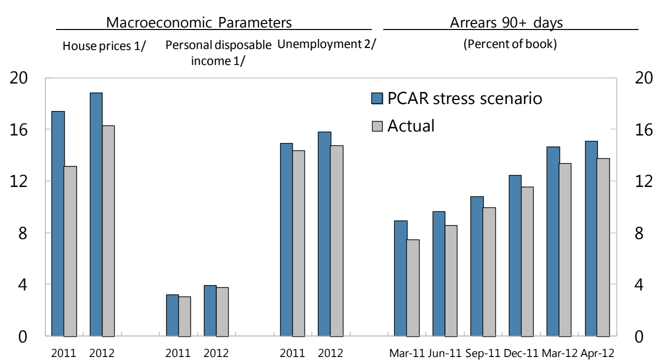
11. Residential mortgage arrears continue to rise, but remain within the assumptions for bank recapitalization. As of end March 2012, almost 14 percent of the total principal balance of owner occupied residential mortgages outstanding was affected by arrears of 90 days or more, broadly doubling since end 2010. Nonetheless, the overall arrears balance, together with developments in house prices and unemployment, remain within the adverse scenario of the Prudential Capital Assessment Review (PCAR) that guided bank recapitalization in 2011. It is notable that about half of total arrears arise from loans that have already been restructured, although part of these arrears could have arisen prior to each loan restructuring, so the effectiveness of rescheduling of distressed loans is unclear. Repossessions and voluntary surrenders of property are also very low, cumulating to 0.2 percent of the stock of mortgages on owner-occupied dwellings in the 11 quarters to March 2012. This is consistent with the one-year moratorium on repossessions of primary residences under the Code of Conduct on Mortgage Arrears, but may also reflect a need to buttress the repossession framework.

Ireland: Residential Mortgage Arrears (in billion of euros)

	Dec-09	Dec-10	Dec-11	Mar-12
Outstanding	118.3	116.7	113.5	112.7
Mortgage loans in arrears over 90 days 1/	5.3	8.6	13.9	15.4
in percent of outstanding	4.5	7.4	12.3	13.7
Restructured mortgages	n.a.	10.4	13.3	14.2
in percent of outstanding	n.a.	8.9	11.7	12.6
Repossessions and voluntary surrenders 2/	211	574	1182	1352

Source: Central Bank of Ireland.
1/ Includes restructured mortgages in arrears over 90 days.
2/ Cumulative number since 2009Q3

PCAR Stress Scenario and Outcome, 2011–12

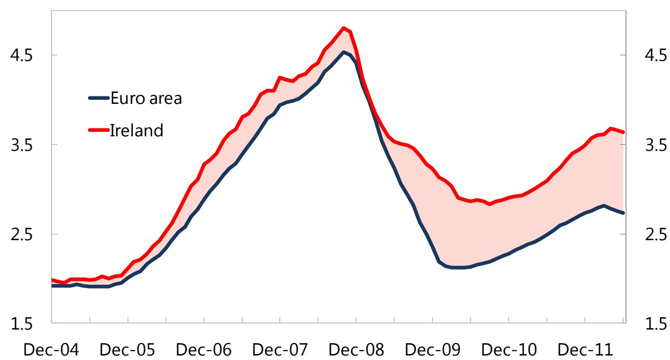


Sources: National Authorities; and IMF staff calculations.
1/ Nominal decline in percent. 2012 actual refers to January to June, y/y.
2/ In percent. 2012 actual refers to H1 average.

12. Lending to households and SMEs has declined to low levels (Figure 3). New mortgage lending almost halved from 2010 levels to €2.5 billion in 2011, and eased to €1.0 billion in H1 2012. New loans to SMEs (excluding financial intermediation and property related loans) drawn down remained around €2.2 billion in 2010 and 2011, yet slowed somewhat in Q1 2012 to €0.4 billion, sufficient to keep outstanding credit to these SMEs stable at about €27 billion since late 2010. An ECB survey finds 25 percent of Irish SMEs identify access to finance as the most pressing concern in the six months to March 2012, the third highest in the euro area. Nonetheless, the rejection rate for Irish SME credit applications of 17 percent is only modestly above the euro area average of 13 percent, and is driven by a particularly high rate (38 percent) for micro enterprises (1–9 employees). A domestic survey covering the same period with broader enterprise coverage in Ireland found that of the 38 percent of SMEs seeking credit, 28 percent of requests were declined (excluding pending applications). The Credit Review Office, which is available to review such rejections, has ruled that credit be granted in 60 percent of cases referred to it, and it suggests that banks better assess performance fundamentals in processing SME credit applications.

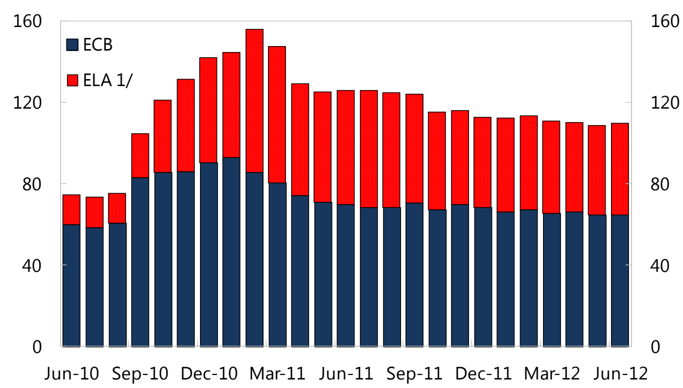
13. Bank funding pressures have eased recently and deleveraging targets have been met. Corporate and household deposits have stabilized, but attracting deposits has come at the cost of high interest rates. Although there are some signs of an easing of deposit rates in recent months, they remain high relative to the euro area average. Banks' deleveraging has continued to progress largely as planned under the Prudential Liquidity Assessment Review (PLAR) of early 2011, with €42 billion achieved by end April out of an indicative three-year target of €70 billion. Together these developments allowed banks to taper down their reliance on ECB financing: by mid-2012, ECB refinancing of the domestic banks was back to the pre-turmoil level.

Household Deposit Rates 1/
(Percent per year)



Source: ECB; and Haver.
1/ Average for deposits outstanding with agreed maturity up to 2 years.

Eurosystem Borrowing, PCAR Banks and IBRC
(Billions of euros)

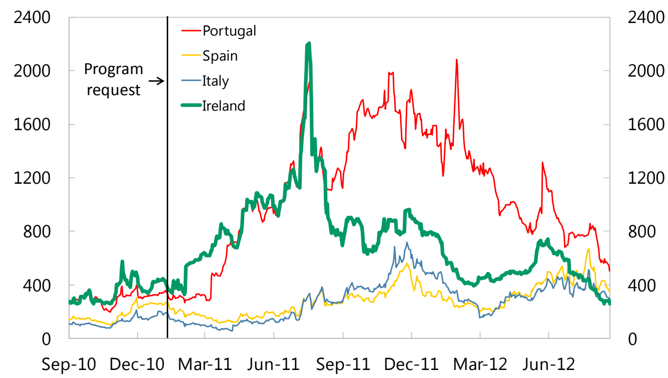


Sources: Irish authorities; Haver; and IMF staff calculations.
1/ Proxied by sum of CBI's other claims on euro area credit institutions and other assets.

14. The three PCAR banks continue to be well capitalized but their restructuring efforts have not yet generated concrete improvements in financial performance (Box 1).[5] With equity increased by €24 billion in 2011, average core tier 1 regulatory capital stood at 16½ percent of risk-weighted assets as of Q1 2012. However, preprovision profits turned negative in Q1 2012, at minus 0.1 percent (annualized) of total average assets, down from 0.2 percent in 2011. Five main issues depress bank revenue generation: (i) a large legacy overhang of tracker mortgages indexed to (low) policy rates; (ii) high fees on the Eligible Liabilities Guarantee (ELG) Scheme; (iii) foregone interest on impaired loans; (iv) high operational costs; and (v) the high interest cost of deposits and covered bond funding issued to date. These factors highlight the need to work out sizeable NPLs (21 percent of gross loans) and for more rapid progress in operational restructuring to reduce costs.

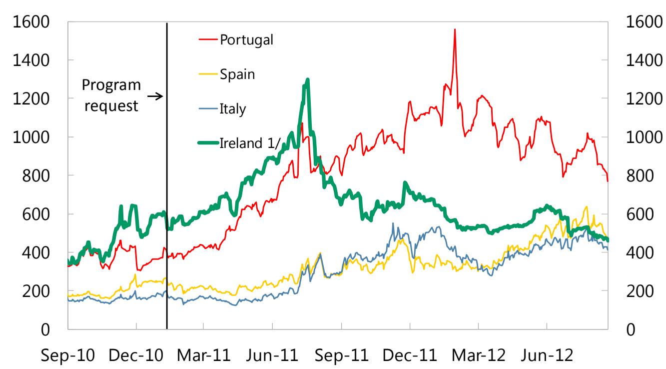
15. Benefitting from important assurances from European leaders, Ireland returned to the sovereign bond market in July 2012. Developments in Irish bond spreads since mid 2011 had suggested the potential for a "decoupling" of Ireland. More recently, the euro area summit statement of June 29, 2012, which committed to examine the situation of the Irish financial sector with the view of further improving the sustainability of the well-performing adjustment program, drove spreads down by 80–100 basis points. Taking advantage of this opportunity, Ireland returned to the bond market on July 26, 2012—for the first time since September 2010—with a new five-year issue and a reopened eight-year issue which together raised €4.2 billion, mostly subscribed by foreign investors. The average yield of 5.9 percent was consistent with a modest premium over the secondary market. Financing needs in 2013 and 2014 were reduced by a further €1 billion through a bond swap.

Two-Year Sovereign Bond Spreads
(Basis points)



Sources: Bloomberg; and IMF staff calculations.

Ten-Year Sovereign Bond Spreads
(Basis points)



Sources: Bloomberg; and IMF staff calculations.
1/ Irish 9-year government bond yield spread over 9-year bund.

[5] The three PCAR banks are: Allied Irish Banks (AIB), Bank of Ireland (BoI), and Permanent TSB (PTSB), with public sector stakes of 99.9 percent, 15.2 percent, and 99.0 percent, respectively.

Box 1. PCAR Banks' Financial Performance, Q1 2012

The financial performance of the PCAR banks remained weak in Q1 2012. While the banks continue to show high regulatory capital (an average risk-based core tier 1 ratio of 16½ percent), net preprovision operating profits were negative 0.1 percent of total average assets, down from 1.7 percent in Q4 2011. The factors that depressed performance during 2011 remain at play:

- **The already low net interest margin fell by 40 basis points in Q1**, to 0.8 percent of average assets. Though funding costs fell by 35 percent from Q4 2011 reflecting the actions of a leading bank to lower deposit rates, this was not enough to compensate for weakening interest income due to higher loan impairments and the drag from low yielding tracker mortgages.
- **The ELG fee remained high**, at 110 basis points in Q1, absorbing some 40 percent of the net interest margin (up from 28 percent in Q4 2011).
- **Fee income declined to a very low 0.3 percent of average assets**, following the contraction in underlying economic activity, and covering only about one-quarter of banks' operating costs.
- **Already high operating costs remained at 1.1 percent of average assets**, consuming 1.3 times the banks' net interest margin in Q1. Cost rationalization efforts are underway, with staff reductions of about 3,400 full-time equivalents anticipated by end 2013.

Other sources of income were small. Nonrecurring items were negligible, and trading gains fell to negative 0.1 percent in Q1 2012. Staff estimates that the underlying cash flow from operations currently runs at minus €1.1 billion annually (after adjusting noncash revenue for the unwind discount on impaired loans, about €1 billion per year). In sum, the banks have not achieved profitability and are not positioned to absorb loan loss provisioning costs. In Q1, they made provisions covering 1.2 percent of assets, leading to a net income loss of €1 billion and a negative ROA of 1.2 percent.

PCAR Banks' Aggregated Summary Financial Statements, Q4 2011 – Q1 2012

Balance Sheet	Q4 2011	Q1 2012	q/q change	
	€ bn	€ bn.	€ bn.	%
Cash & due from Eurosystem	12.2	14.6	2.4	19.7
Net loans	215.2	211.9	-3.3	-1.5
Due from banks	14.5	11.4	-3.1	-21.4
Securities & derivatives	69.5	68.5	-1.0	-1.4
Other assets	14.9	13.9	-1.0	-0.1
Total assets	326.3	320.3	-6.0	-1.8
Total average assets (TAA)	328.2	323.3	-4.8	-1.5
Due to Eurosystem	67.8	64.9	-2.9	-4.3
Due to banks	17.6	16.9	-0.7	-4.0
Deposits	148.9	151.3	2.4	1.6
Debt & derivatives	56.7	52.1	-4.6	-8.1
Other liabilities	7.1	7.0	-0.1	-1.4
Total liabilities	298.1	292.2	-5.9	-2.0
Net equity	28.2	28.1	-0.1	-0.4
Total liabilities & equity	326.3	320.3	-6.0	-1.8
Gross loans 1/	240.9	235.7	-5.2	-2.2
Loan loss provisions	23.5	24.3	0.8	3.4
Gross NPLs	47.0	48.9	1.9	4.0
Gross NPLs to gross loans (%)	19.5	20.7		1.2
Provisions to gross NPLs (%)	50.0	49.7		-0.3
Net NPLs to net equity (%)	83.3	87.5		4.2

Profit and Loss Account	Q4 2011		Q1 2012	
	€ bn.	% of TAA	€ bn.	% of TAA
Interest income	3.6	4.4	2.4	2.9
Interest expense	-2.6	-3.2	-1.7	-2.1
Net interest margin	1.0	1.2	0.7	0.8
Net fee income	0.4	0.5	0.2	0.3
Net trading gains	0.9	1.1	-0.1	-0.1
Other nonrecurrent items	0.3	0.4	0.0	0.0
Gross operating income	2.6	3.2	0.8	1.0
Operating expenses	-0.9	-1.1	-0.9	-1.1
o/w: administration & other	-0.3	-0.3	-0.4	-0.5
o/w: staff	-0.6	-0.7	-0.5	-0.6
Preprovision profits (PPP)	1.7	2.1	-0.1	-0.1
Loan loss & NAMA provisions	-6.9	-8.4	-1.0	-1.2
Loss on derecognized assets	-0.9	-1.1	0.0	0.0
Net income before tax	-6.1	-7.4	-1.1	-1.3
Tax effects & other 2/	0.9	1.1	0.1	0.1
Net income	-5.2	-6.3	-1.0	-1.2
PPP net of other nonrecurrent items	1.4	1.7	-0.1	-0.1
Return on equity		-79.0		-13.9
Provisions to gross loans		4.1		1.6
Risk weighted assets (RWA)	166.8	50.8	160.4	49.6
Core tier 1 capital (CT1) to RWA (%)		16.4		16.5
CT1 to total assets = leverage ratio (%)		8.4		8.2

1/ Includes loans held for sale, classified on balance sheet as other assets.
2/ Includes net tax credits of €0.1 bn. in Q1 2012 and €0.9 bn. in Q4 2011.

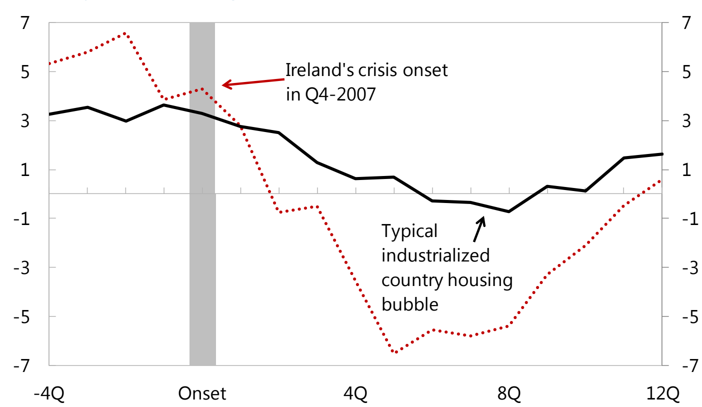
Sources: CBI and Fund staff estimates.

OUTLOOK—UNCERTAINTIES THREATEN RECOVERY AND EXIT

16. Real GDP is expected to grow by about ½ percent in 2012, a significantly slower pace than in 2011. Net exports should remain the main driver, but with a smaller contribution than in the past two years as trading partner growth is expected to decelerate from 1.6 percent to 0.7 percent, although recent data signal some upside potential for exports. Real private consumption is projected to shrink by a further 1.9 percent as disposable income growth remains weak despite the supportive impact of lower ECB rates on mortgage interest payments. Gross fixed investment will likely contract again given domestic and external uncertainties and low lending to SMEs and households, yet private investment is already very low at 7½ percent of GDP. Weak domestic demand limits job creation, with the unemployment rate expected to remain at almost 15 percent, its highest level since 1995. A negative output gap is expected to limit inflation to 1.4 percent, driven by energy costs and administered prices.

17. The macroeconomic outlook is based on an external recovery and on restoring over time a well functioning financial sector (Table 2). Ireland in 2008–10 was no exception to the international experience of slow recoveries after housing busts; indeed, its recession was much deeper than typical. Yet Ireland demonstrated its capacity to grow in 2011, and a similar 1½ percent growth rate is projected in 2013, led by stronger export growth from trading partner recovery. While fiscal consolidation remains a significant drag in 2013, the pace of decline in domestic demand is expected to slow further as household saving gradually eases from high levels while still keeping household debt burdens on a declining path; as stabilizing housing prices in certain areas strengthen demand from the younger cohort of households with little debt; and as private investment bottoms out.[6] The medium-term growth projection, for an average of 2¾ percent annual growth in 2014–17, is low in relation to the scale of underutilized resources. It hinges on continued external recovery to drive export growth averaging 4½ percent—which is modest by historical standards—supported by a revival of domestic demand. The latter is expected to be a protracted process given the continued yet moderating fiscal adjustment, with domestic demand growth projected to turn positive only in 2014 and to reach just 2 percent y/y by 2015–17. Exports could outperform this outlook and machinery and equipment investment could also rebound more substantially in the medium term.

Real GDP in Downturn and Recovery
(Year-on-year percent change)



Sources: CSO; Haver and IMF staff calculation.

[6] Household consumption, debt, and saving linkages are discussed in Chapter I of the selected issues paper, where a gradual consumption recovery is consistent with an easing in household debt burdens over time.

18. There are, however, a range of interconnected downside risks to this baseline outlook:

- ***Spillovers from the euro crisis***. The medium-term growth scenario assumes resolution of the euro area crisis over the next year. Conversely, an intensification of stresses would impact Ireland's growth outlook through exports given the high openness of the economy, and also by undermining household and business confidence and domestic spending. Adverse effects on debt trajectories and on financial sector health could also result in higher Irish spreads and rating downgrades, thwarting market access.

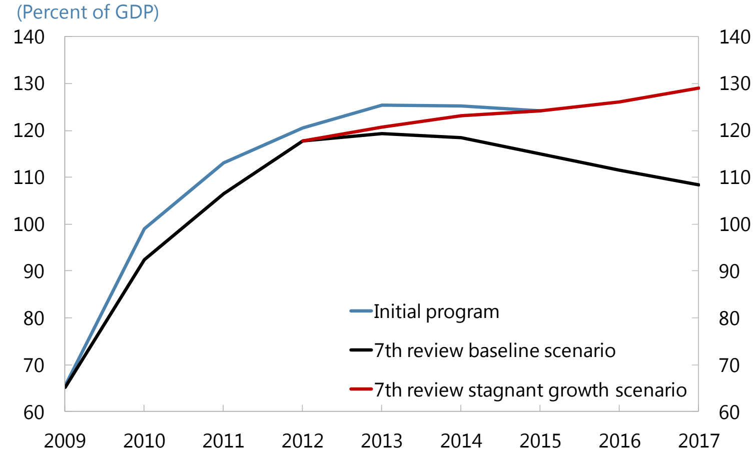
- ***Domestic demand and the banks***. The eventual gradual resumption of private consumption and investment growth—now not expected until 2014—hinges on a bottoming out of house prices, some pick up in lending to SMEs and the less indebted younger cohort of households, well targeted private debt restructurings, and a sense that the crisis is being overcome. Slower progress on these issues, meshed with concerns about the stability of the euro area, would risk unleashing a renewed pernicious cycle of falling confidence, declining demand, rising unemployment, and renewed asset price declines, with bank capital needs emerging if this stress is lasting.

- ***Unemployment***. Gradual economic recovery and slow job creation could imply higher structural unemployment, limiting potential growth over the medium-term, while persistent high youth unemployment could risk sustained high emigration.

19. If these risks to growth materialize, the effect on the fragile public debt path would be profound, with adverse implications for Europe (Table 1 and Annex II). In the current baseline, gross general government debt peaks at 119 percent of GDP in 2013—slightly lower than previously projected given upward revisions to nominal GDP data—and then declines to 108 percent of GDP by 2017. This debt outlook limits Ireland's fiscal space, so contingent policy options in an adverse scenario would be severely constrained. Risks to the trajectory remain high: in a slow growth scenario with real GDP expanding by only ½ percent per year over the medium term, gross debt would instead rise to 129 percent of GDP by 2017. In such a scenario, the still tight bank–sovereign linkages may yet result in additional debt increases as higher unemployment and lower asset prices lead over time to rising arrears and loan losses. Such setbacks in Ireland, in turn, would exacerbate the broader European crisis.

General Government Gross Debt

(Percent of GDP)



Source: IMF staff projections.

Text Table 1. Risk Assessment Matrix [1/]
(High, medium, or low)

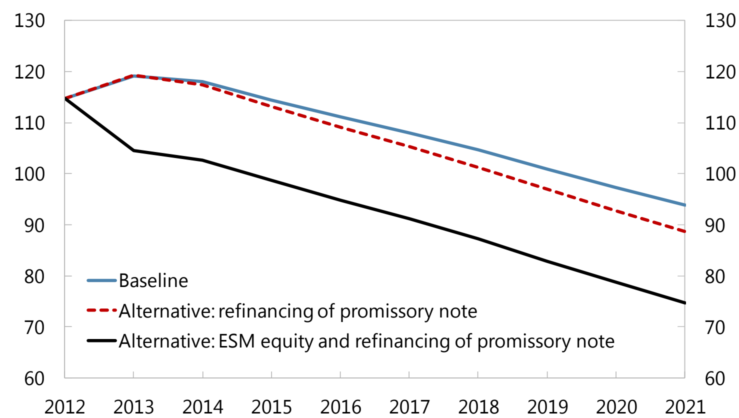
Source of Risks	Relative Likelihood [2/]	Impact if Realized
Strong intensification of euro area crisis.	**Medium** Heightened financial stress could hurt the outlook for the euro area.	**High** Renewed recession via trade and confidence channels, and reduced investor appetite for Irish bonds.
Stagnation of world growth.	**Medium** Softer demand from the United Kingdom and the United States.	**Medium** Lower net exports compounding subdued domestic demand.
Increased reliance by banks on ELA.	**Medium** Bank debt maturities and possible slower deleveraging could lead to additional liquidity support, possibly via ELA, depending on ECB collateral policies.	**Medium** Reduced market funding prospects for banks and higher barriers to sovereign market financing given increased need for government guarantees to CBI.
Delayed or insufficient improvement in debt sustainability from implementation of June 29 commitments of euro area leaders, e.g., due to valuations of ESM bank equity purchases.	**Medium** Public debt levels left too high and bank–sovereign linkages left intact, reducing market confidence in both banks and the sovereign.	**High** Significant risk of inadequate access to market financing, with banks continuing to face funding and profitability challenges; risk of more official support undermines confidence and recovery.
Domestic demand revival is further delayed.	**Medium** Efforts to strengthen banks' lending capacity work more slowly, delaying demand recovery and house price stabilization.	**Medium** Temporarily weaker growth is manageable, but fiscal adjustment would be more difficult and unemployment higher.
Unemployment increases become structural.	**Medium** Lengthening unemployment spells erode skills and raise emigration.	**Medium** Lower potential growth, impinging on debt sustainability

[1/] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path discussed in this report (which is the scenario most likely to materialize in the view of the staff). The RAM reflects staff's views on sources of risks and levels of concern at the time of discussions with the authorities. The relative likelihood of risks listed is the staff's subjective assessment.

[2/] In the event that the baseline does not materialize.

20. Robust implementation of the June 29 euro area summit statement could markedly improve Ireland's debt dynamics and prospects for sustained market financing. The ESM's bank recapitalization instrument is key to improving sustainability and to addressing the euro area leaders' imperative of breaking the vicious cycle between banks and sovereigns. If, for illustrative purposes, the ESM invested €24 billion in the banks (the full value of the bank equity increase under the EU-IMF supported program), and the government used the proceeds towards debt reduction, government debt would drop 14½ percentage points to 105 percent of GDP in 2013. Market perceptions of the banks would benefit as ESM equity broke banks' links to the sovereign, enhancing the value of the banks and their potential to support economic recovery. The other main component of such a package would be a refinancing of the €28 billion in promissory notes (debts that formed a major part of bank recapitalization costs) to extend their debt service schedule. Either long-term government securities or an EFSF/ESM loan could provide such a refinancing, but the former would avoid adding to debts that markets may consider senior. While this refinancing would only modestly lower Ireland's debt path, it would significantly reduce financing needs in coming years. Together these steps would much improve Ireland's prospects for the durable market access needed to avoid prolonged dependence on official financing.

General Government Gross Debt
(percent of GDP)



Sources: IMF staff projections.

POLICY DISCUSSIONS—WORKING TOWARD ECONOMIC REVIVAL

21. The key medium-term challenge is to promote sustained recovery amidst ongoing fiscal consolidation and private sector deleveraging. Recent growth has been export-led, benefiting from early competitiveness gains, but sustained recovery will increasingly require a job creating domestic demand revival. Hence the consultation focused on:

- How to get the financial sector to a point where it will step up and lend to credit constrained but creditworthy borrowers.
- The design of fiscal consolidation with regard to both the phasing and composition of measures to mute adverse growth effects and limit risks to achievability.
- Heading off higher structural unemployment that would constrain growth potential.

The analysis is supported by a *Selected Issues* volume comprising four chapters: (i) household deleveraging and consumption; (ii) lending to SMEs and households; (iii) the medium-term fiscal strategy; and (iv) approaches to counter structural unemployment.[7]

A. Building a Healthy Financial Sector and Reviving Domestic Demand

22. At end March 2011, the CBI completed a comprehensive assessment of the capital and liquidity conditions and needs of domestic banks. This Financial Measures Programme served to much reduce market uncertainties through robust analysis and a high degree of transparency, with bond yields and spreads declining notably. It comprised:

- ***The PCAR stress test***, which assessed the capital needs of four domestic banks (now merged into three) under a baseline scenario and a stringent three-year stress scenario. These tests identified the additional capital required to meet minimum core tier 1 capital ratios of 10½ percent in the baseline and 6 percent in the stress scenario. Including a significant buffer on top of the stress test results, the PCAR found a further €24 billion was required to ensure sound capitalization of the banks.

- ***An independent loan loss forecasting exercise***, performed by BlackRock Solutions. These loss forecasts, which were notably more conservative than those of the banks, were the foundation for the assessment of capital needs in the PCAR.

- ***The PLAR deleveraging plan***, which set targets for banks participating in the PCAR to reduce their leverage and reliance on central bank funding.

23. At the same time, the authorities laid out a comprehensive reform strategy for the banks.[8] The aim was to put the banking system on a firm footing for the future so that it would support economic recovery. Accordingly, rather than just recapitalizing the banks, the authorities' considered it important to reorganize them and deleverage (downsize) their balance sheets, to better serve the needs of the Irish economy. Thus the three-year deleveraging process would not only address the excessive scale of bank assets, it would also be part of the restructuring to focus the banks on their core operations, and would do so in a way that avoided fire sales. Much progress has been made in implementing this three pronged strategy, with recapitalization complete and deleveraging well advanced (Table 2).[9]

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[7] Staff also confirmed that there have been no changes to Ireland's exchange system since the last Article IV consultation in July 2010. Ireland maintains an exchange system free of restrictions on payments and transfers for current international transactions (see Informational Annex).

[8] See Minister's Statement on Banking Matters.

[9] Underpinning the progress in reforming the banking system, the authorities put in place a permanent bank resolution framework in October 2011 (see Box 2 in Ireland—Fourth Review Under the Extended Arrangement). This framework, which implements a key recommendation of the 2010 Article IV consultation, initially exists in parallel with an emergency regime adopted during the crisis that is expected to be phased out by end 2012.

Text Table 2. Status of Financial Sector Reform Implementation

Strategy	Progress
Reorganization Aimed at creating a two-pillar banking system with two universal full-service banks servicing the needs of the Irish economy.	The first stages of this strategy were delivered swiftly. The first pillar was created around Bank of Ireland, and the second pillar by merging Allied Irish Banks and EBS. Anglo Irish Bank and Irish Nationwide Building Society, the failed banks, were merged to form the Irish Bank Resolution Company (IBRC). Irish Life & Permanent Group was restructured to separate Irish Life, the life assurance and fund management unit, from Permanent TSB (PTSB), the bank, with the former bought by the state to finalize the recapitalization of the latter. [1/] The restructuring of PTSB is proceeding, with three separate business units being established: a core retail bank, an asset management unit, and the U.K. mortgage loan book (Capital Home Loans). Institutional arrangements were put in place in mid 2011. The Department of Finance has established a banking division, whose role and interaction with the CBI was defined in a memorandum of understanding. Relationship frameworks detailing the nature and modalities of the (arm's-length) interaction with the banks have been adopted and published.
Recapitalization Deliberately conservative, targeting core tier 1 capital ratios of 10½ percent and 6 percent under base and stress cases, respectively.	Banks were asked to forecast their financial statements through end 2013. An independent third party, BlackRock Solutions, estimated future losses on banks' portfolios, and the CBI overlaid additional conservative assumptions. This exercise generated aggregate recapitalization needs of €24 billion, with equity injections completed in June 2012. The total cost to the state was limited to €17.8 billion (including the purchase of Irish Life), through capital raising from private investors and burden sharing with subordinated debtholders. The PCAR exercise will be re-run in concert with the European Banking Authority's next euro area stress test exercise.
Deleveraging The three-year deleveraging framework to downsize the banking system, improve prospects for market funding, and reduce reliance on Eurosystem funding.	Core and noncore assets were delineated. Core assets are those principally serving the needs of the Irish economy and thus needing to be supported by stable funding even as reliance on ECB financing is reduced. Noncore assets principally consist of foreign claims to be disposed or run off. The initial overarching yardstick of the deleveraging plan was to reduce loan-to-deposit ratios from 180 percent in the aggregate at end 2010 to no more than 122½ percent by end 2013. Banks identified €70 billion of assets at the outset, of which more than half have been disposed or amortized. Overall, deleveraging has advanced faster than planned, in some cases owing to frontloaded disposals by banks, but also to a stronger-than-anticipated run off of core asset portfolios reflecting writeoffs and lackluster credit demand.

[1/] Irish Life & Permanent Group Holdings plc and Irish Life & Permanent plc have been renamed Permanent TSB Holdings plc and Permanent TSB plc respectively.

24. Creating the conditions for robust credit flow in support of sustained economic recovery is, nonetheless, a difficult challenge requiring deep and sustained reform efforts. In view of the progress already made, and in light of financial market developments, a number of interrelated challenges are now key priorities:

- **Arresting the deterioration in asset quality is essential**. As residential mortgage arrears rose during 2011, the CBI stepped in appropriately to identify operational weaknesses in banks' management of distressed credit and to require the banks to develop mortgage arrears resolution strategies. Banks are now accelerating work to build credit collection and workout functions. Similar supervision of workout efforts for loans to SMEs has begun, and should proceed apace considering the importance of this sector for job creation. The authorities also recently introduced to parliament a comprehensive reform of the personal insolvency framework to help address borrower financial distress while maintaining debt service discipline, which will provide an important backstop to bilateral efforts to resolve distressed loans.[10] Nonetheless, progress with loan workout and resolution has not advanced as rapidly as would be desirable. Consistent implementation and close monitoring of these combined efforts are essential to enable a much needed transition toward long-term solutions tailored to borrowers in difficulty. In parallel, it will be important to ensure that the repossession framework works efficiently in practice so that it complements the personal insolvency reforms.

- **Regaining profitability is necessary for banks to sustain new lending**. As discussed, interest margins are compressed by high deposit interest rates and guarantee fees. It is now appropriate to begin phasing out the ELG Scheme in an orderly manner while preserving access to funding. Moreover, banks remain burdened by cost structures that are too high; in this sense the reorganization of banks remains to be completed. Plans to reduce operational expenses will need to be fully implemented in a timely manner, and progress in achieving reasonable cost-to-income ratios should be reviewed periodically.

- **Banks' funding also remains a constraint on lending that needs to be addressed**. The current strategy to regain bank access to market funding rests on a combination of strengthened capital, improved liquidity through deleveraging, loan restructuring to clarify asset values and reduce arrears, and operational restructuring and other measures to restore profitability. There have been positive funding developments, with the Irish deposit base recovering somewhat recently, and banks have obtained repo funding secured on U.K. collateral. However, in common with banks in other euro area countries, accessing material volumes of secured market funding to support new lending faces difficulties. In addition, there are now increased risks of losses from deleveraging, with much of the banks' more attractive foreign assets already sold and deleveraging by European banks on the rise. In the absence of viable funding alternatives, banks may be unable to avoid increased reliance on Eurosystem funding when further bond maturities occur. This would result in substantial encumbrance of banks' assets, and renewed reliance on ELA if ECB-eligible collateral is exhausted, limiting potential market funding. These circumstances undermine prospects for a revival of lending, and a sustainable solution will need to be found for the euro area as a whole.

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[10] An overview of the new regime is in Box 2 of Ireland—Fifth Review Under the Extended Arrangement.

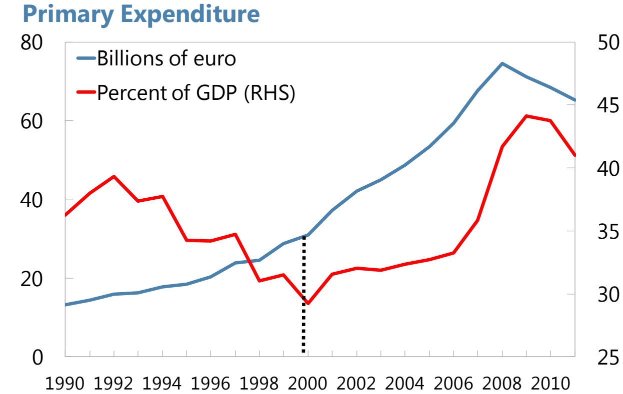
- A further concern is that prevailing high economic uncertainty will leave even a well capitalized banking system reluctant to lend. While lack of aggregate demand is critical to low investment and credit, there appear to be some pockets of creditworthy but credit constrained borrowers, notably in the SME sector.[11] Staff therefore supported the roll out of a small Temporary Partial Credit Guarantee Scheme, through which the state will guarantee 75 percent of creditors' exposure, up to €150 million annually.

25. The authorities broadly agreed with the thrust of the analysis on the main challenges in restoring a healthy flow of credit to the economy. They considered the financial sector reform strategy adopted in March 2011 to have proven its effectiveness in restoring financial stability, which was critical to stabilizing the economy. At the same time, they agreed that further work was needed to ensure the financial system can return to healthy operation. Improving the quality of bank assets is a key priority for the authorities, and one that is being addressed through a combination of supervisory measures and the reform of household bankruptcy, where sound implementation is both resource intensive and time consuming. In particular, the authorities are alert to the need for careful implementation of the personal insolvency reforms. The authorities noted that they are developing a roadmap to wean banks off the ELG Scheme while preserving financial stability, and are supporting the implementation by banks of restructuring plans to reduce operational costs. On funding, the authorities indicated they would continue to assist banks in developing collateral quality to increase the scope for market funding, yet noted that reviving bank funding markets is a broader challenge for the euro area.

B. Growth-Friendly Consolidation that Protects the Vulnerable

26. Although Ireland had a balanced budget going into the crisis, booming revenues masked a significant weakening in the underlying fiscal position. After a period of rapid export-led growth in the 1990s where spending and tax revenues declined to low levels relative to GDP, public finances were, at the turn of the millennium, redirected toward improving social outcomes and expanding public services. Nominal primary spending rose 140 percent over 2000–08 (11 percentage points of GDP in structural terms), with welfare rates doubled (tripled in the case of the universal child benefit), the number of public servants enlarged by 35 percent, and public wages raised 60 percent.[12] The spending surge was accompanied by structural tax cuts: the already high entry point to the income tax (25 percent of per capita GDP in 2000) was doubled by 2009, while statutory income tax rates were lowered by 5 percentage points. The structural primary deficit, hidden by a flood of property-related revenues during the boom years of 2003–07, rose to over 10 percent of GDP in 2008.

Primary Expenditure



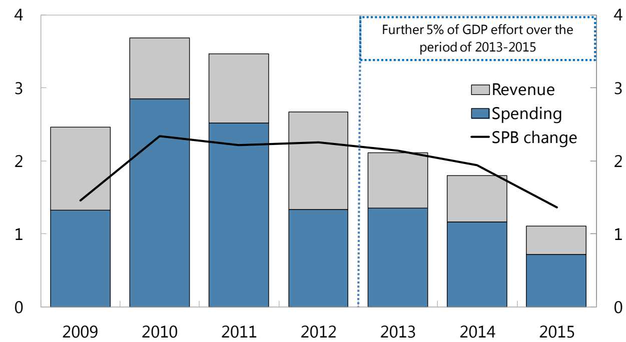
Source: IMF staff calculations.

[11] Lending to SMEs and households is discussed in Chapter II of the selected issues paper.

[12] In comparison, per capita GDP growth was 45 percent over 2000–08 and 24 percent over 2000–11.

27. The crisis prompted a sharp course correction, with substantial consolidation implemented in recent years. Cumulative budget measures in the last four years (2009–12) are estimated to strengthen the structural primary balance by 8 percent of GDP. This large effort was expenditure-led (two-thirds of total measures), combining a 14 percent cut in public wages, an 8 percent cut in welfare rates (except pensions), an almost 10 percent reduction in public service numbers from 2008, and savings in the non-pay current and capital budgets (17 and 63 percent, respectively). Revenue contributions included personal income tax base broadening (10 percent reduction in income tax bands, introduction of universal social charge, elimination of Pay-Related Social Insurance (PRSI) reliefs and exemptions); higher taxes on capital and savings; and an increase in indirect taxes, most notably, the 2 point hike in the standard VAT rate to 23 percent in 2012.

Composition of Fiscal Consolidation
(percent of GDP)



Sources: IMF staff estimates.
SPB denotes structural primary balance ratio.

28. This major consolidation was achieved during a deep economic slump while preserving social cohesion and protecting key public services and the most vulnerable. Political commitment to consolidation has been a welcome constant, as reflected in the affirmation by the new government (which took office in March 2011) of the medium-term fiscal targets in the EU–IMF supported program agreed in December 2010. An agreement with the public service following the 2009–10 pay cuts (the "Croke Park Agreement") stipulated that future savings would be achieved through voluntary retirements and redundancies, rather than cuts in pay, and that the public service would be flexible in redeploying staff in order to protect services. The June 2012 Progress Report of the CPA Implementation Body found that significant targeted reductions in the wage bill had been achieved in the second year of the agreement, while protecting public services. The progressive design of the consolidation, together with strong social protection, has helped Ireland retain the second-lowest relative at-risk-of-poverty gap in Europe in 2010, despite suffering a deeper crisis (Box 2).

29. With the overall deficit expected to still exceed 8 percent of GDP in 2012, significant further consolidation is required over the medium term. The Medium-Term Fiscal Statement (November 2011) set out the parameters for a 5 percent of GDP consolidation over 2013–15 to deliver a deficit of 3 percent of GDP in 2015. The quantum, phasing, and objective of this consolidation is broadly appropriate. At the same time, given the fragility of Ireland's economic recovery, should any significant additional consolidation need be identified in

Medium-Term Fiscal Adjustment

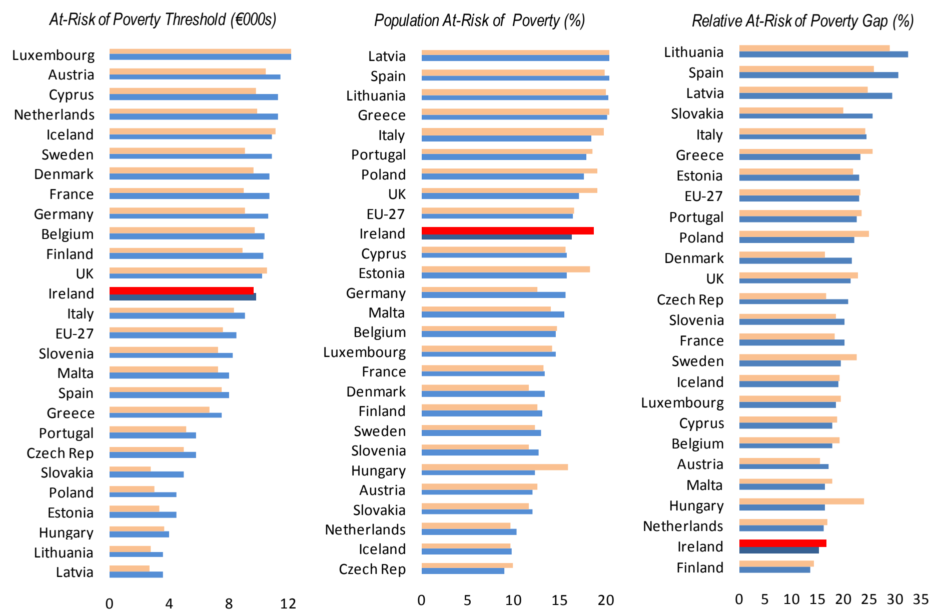
	2012	2013	2014	2015
Budget measures				
€ billion 1/	4.3	3.5	3.1	2.0
Percent of GDP	2.7	2.1	1.8	1.1
General government deficit target				
Percent of GDP	8.6	7.5	5.1	2.9

Source: Medium-term Fiscal Statement, November 2011
1/ In 2012, includes carry-over from the Universal Social Charge.

Box 2. The Impact of the Crisis on Poverty and Inequality

Ireland has avoided a decline in poverty rates relative to Europe despite facing a deeper economic slump. Ireland's at-risk-of poverty (ARP) threshold—set at 60 percent of median equivalized household disposable income—was above the EU average (left panel) in both 2006 and 2010. The share of population below the ARP threshold fell from 18.5 percent in 2006 to 16.1 percent in 2010, just below the EU average (center panel). Moreover, at 15.3 percent, Ireland's 2010 relative poverty gap (percent deviation of ARP threshold from the median income of those below it) is the second lowest in Europe (right panel). Overall, Ireland's strong social supports have avoided a rise in poverty during the crisis.

Selected Poverty Indicators in Ireland and the EU – 2006, 2010



Source: Eurostat. Notes. 2006 figures in orange; 2010 figures in blue. At-Risk of Poverty Threshold is in Purchasing-Power-Standard terms.

The consistent poverty rate (the official poverty indicator in Ireland, which combines data on incidence of deprivation with the ARP measure) has also been relatively stable. At 6.2 percent in 2010, the consistent poverty rate was still below 2006 levels. Although it rose during the crisis for the population as a whole, this poverty measure fell to low levels for those aged 65 and above.

Consistent Poverty in Ireland (% of individuals, equivalized)

	2006	2007	2008	2009	2010
Total	6.5	5.1	4.2	5.5	6.2
0-17 yrs	*10.3*	*7.4*	*6.2*	*8.7*	*8.2*
18-64 yrs	*5.6*	*4.7*	*3.9*	*4.9*	*6.4*
65+ yrs	*2.2*	*2.0*	*1.4*	*1.1*	*0.9*

Source: Central Statistics Office

While some recent data has raised concerns about rising inequality, this may partly reflect sampling variations, as budget consolidation has been progressive overall to date. Recent data from the Survey on Income and Living Conditions showed a rise in the ratio of net disposable income in the top quintile to that in the bottom quintile from 4.4 to 5.3 between 2008 and 2010 (slightly above the EU average of 5.0). However, sample composition changes were large, with half the respondents being new. Measured inequality may have increased because self-employed people—who typically receive few social transfers—moved disproportionately into the bottom quintile, while large one-off retirement and redundancy payments were included in social transfers. Indeed, the ESRI finds the cumulative budgetary consolidation over 2009–12 has been progressive, with the exception perhaps of the 2012 standard VAT rate increase, although this only applied to half of consumption, as many essentials are zero-rated.

future updates of the Statement, this should be spread over outer years (2014–15) while still reaching the medium-term fiscal goal.[13] The plan envisages a continuation of the expenditure-led approach (maintaining the two-thirds share), which can be justified given Ireland's now fourth-highest primary expenditure ratio in the OECD (as a share of GNP), and given the opportunities for savings discussed below. In addition, maintaining a freeze on nominal wage and welfare rates is expected to generate a further reduction in the expenditure ratio of about half 3½ percentage points of GDP by 2015.

30. Nonetheless, even with the authorities' strong capacity to deliver, risks to reaching these consolidation goals remain. The authorities' track record of delivering against plans, and a robust new framework of tri-annual spending reviews and multi-annual nominal expenditure ceilings, support the achievement of the expenditure-led consolidation. However, after several successive years of adjustment, few low-hanging fruit are left. Evidence from past European consolidations, especially the recent Latvian experience, suggests that expenditure reductions become progressively more difficult in later phases of consolidation, or when key services begin to be affected.[14] Moreover, a weaker than expected growth recovery would erode savings from the nominal wage and welfare rate freeze, while the demographic outlook will put significant upward pressure on pension, education, and health spending over the medium to longer term.[15]

31. In these difficult circumstances, a strategic approach that keeps all high-quality expenditure and revenue options on the table is needed to complete the consolidation in a durable manner.[16] Given the still-fragile economy and high unemployment, it is vital that the choice of budget measures minimizes the drag on demand and job creation. At the same time, the measures need to entail fair burden-sharing across income groups, generations and family types, while effectively protecting the most vulnerable. To achieve these goals, staff encouraged the authorities to base fiscal consolidation on the following approaches:

- Better targeting the state's social supports and subsidies to ensure support is directed to those who need it;
- Reforming key government services, especially health and education; and
- Focusing revenue effort on base-broadening rather than rate hikes.

To best achieve a growth-friendly and fair consolidation, which is more likely to endure, staff recommended to not to rule out any high-quality expenditure or revenue options, some of which may be needed as fallbacks in case any shortfalls arise.

[13] The authorities expect to update this statement in October 2012, in preparation for Budget 2013.

[14] For evidence on past European consolidations, see *Abbas et al (2011)*. For a summary view on the Latvian case, see *Blanchard (2012)*.

[15] Between 2012 and 2020, Ireland's population of over-65 year olds will rise by about one-third, while there will be a roughly 15 percent increase in the number of primary school age children.

[16] A detailed analysis of Ireland's medium-term fiscal consolidation options is provided in Chapter III of the selected issues paper.

32. While ensuring the most vulnerable are protected, comprehensive targeting of spending can deliver timely spending reductions. Maintaining expensive universal supports and subsidies is difficult to justify under present budgetary circumstances. Better targeting of spending, including the child benefit, medical cards, the household benefits package, and subsidies on college fees, can generate significant immediate savings and contain demographic related spending pressures over the longer term, while effectively protecting the poor.[17] In the case of some universal benefits such targeting could be achieved by making them taxable. State pensions have been exempted from the adjustment to date, yet a targeted reduction should also be considered given the broad decline in consumer prices, especially in view of the expected 3 percent annual growth in the eligible population. One approach would be to reduce or eliminate the premium—currently 5 percent—on the contributory pension over the means-tested pension. While recognizing the benefits of the Croke Park agreement for industrial peace, the public sector paybill remains high, and staff urged continued monitoring of the adequacy of savings in the net public pay and pensions bill and of public service provision.[18]

33. In parallel, reforms of key public services are needed to underpin savings in the medium term. Despite spending significantly more than the OECD average on health and education, Ireland's performance indicators are around the OECD average. Moreover the spending pressures in health during 2012 appear to have structural roots. Deeper reforms in health and higher education are therefore needed, by identifying service priorities and delivering them more efficiently. In health, potential reforms could include new working models to minimize premium and overtime payments, greater use of primary care rather than hospital stays, and substantially increasing the currently low share of generic drug use. Similarly, a new funding model for higher education can deliver broad access to high quality education without additional public investment by (i) better taking into account skills priorities in course availability, and linking college fees to the costs and earnings potential of courses while supporting low income students through affordable loans and grants, and (ii) striking the appropriate balance between degree and vocational education. While savings from such reforms can take time to realize, they are important to help ensure the consolidation can be sustained by enabling the growing needs for these services to be met at manageable cost.

34. A base-broadening approach to raising revenue will help mitigate potential adverse growth effects. Relative to other OECD economies, Ireland has a combination of high personal and indirect tax rates and relatively narrow tax bases.[19] This provides considerable room to raise revenues without increasing the already elevated marginal tax rates, and while also avoiding higher effective rates on lower income workers that could undermine work incentives. For example, special income tax reliefs—which currently benefit only those employees earning above the high entry point for income tax—could be better targeted to low-income taxpayers, and options to broaden

[17] The 2011 combined spending on these items was about 3½ percent of GDP.

[18] For a recent staff analysis of the public wage bill, see Box 5 in *Ireland—Sixth Review under the Extended Arrangement – IMF Staff Report*.

[19] Due to very high entry points for income tax and employee PRSI, and despite elevated marginal rates for those around the average wage, Ireland's effective PIT rates are quite low for persons earning up to 167 percent of average wage. Similarly, due to several lower-tier rates, the relatively-high 23 percent standard VAT rate currently applies to just half of consumption.

the PRSI base could be examined. The planned introduction of a value-based property tax in 2013 will provide a progressive and stable source of revenue. A suitably high level for this tax—where staff favored around the 0.5 percent mark—would help maximize these benefits. There is also scope to expand the well designed carbon tax to all fuel types, and to redesign vehicle taxes in a way that can provide significantly higher revenues, while fully preserving incentives for environmental conservation.

35. The authorities agreed that further fiscal consolidation would be more difficult and concurred with much of the thrust of the staff's analysis. They emphasized that improving prospects for growth and job creation was critical, including to make the necessary budget adjustments more tolerable, and there were also significant positive implications for the public finances. The authorities generally concurred that all high-quality expenditure and revenue options needed to be kept on the table in order to deliver the consolidation in a durable manner, while also highlighting the range of savings options that had been identified in the 2011 Comprehensive Expenditure Review, on which the government would be able to draw. At the same time, the authorities emphasized the benefits of the Croke Park Agreement in delivering a leaner and more effective public service, while maintaining industrial peace. The authorities also noted the importance of calibrating social transfers to budgetary resources, labor market developments and demographic pressures. Regarding reforms of public services, the authorities agreed there is scope for savings, such as via greater use of generic drugs and primary care in health, and in improved procurement more generally.

C. Supporting Growth and Reducing Unemployment

36. In recent years, the Irish authorities have undertaken a range of reforms aimed at boosting medium-term growth and reducing unemployment. The main elements of these reforms have included:

- ***Reforms of sheltered sectors***: The authorities introduced two bills to the Oireachtas in the autumn of 2011 to improve competition in the legal and medical services sectors. The Legal Services Regulation Bill aims to increase transparency on legal costs, better protect customers, and create independent oversight bodies for professional misconduct and disputes over legal costs. Margins on pharmaceuticals were reduced and other legislation would make it easier for general practitioners to obtain contracts under the General Medical Services Scheme.

- ***Improving competition enforcement***: The Competition (Amendment) Act 2012 came into effect in July 2012 with the aim of strengthening enforcement of competition law. In addition, the authorities have recently increased the resources of the Competition Authority by about 25 percent.

- ***Strengthening labor activation and training***: The Pathways to Work initiative, adopted in February 2012, sets out a strategy to improve activation and training policies for the unemployed by (i) intensifying engagement between jobseekers and employment services, (ii) better aligning the provision of training with labor market needs, (iii) establishing

effective enforcement mechanisms to ensure that jobseekers comply with activation and training requirements; (iv) strengthening links with employers to ensure a higher share of vacancies is filled by persons registered as unemployed; and (v) reforming institutions to deliver better services to the unemployed.

- ***Facilitating labor market adjustment***: Sectors covered by Employment Regulation Orders (EROs) and Registered Employment Agreements (REAs) were hit hard by the crisis, yet wage adjustment was limited.[20] Moreover, a High Court ruling in July 2011 found sections of the legislation related to EROs to be unconstitutional. Accordingly, the authorities published a draft Industrial Relations (Amendment) Bill in December 2011, which following amendments in June, was signed into law in July 2012. Appropriately, the reform requires greater focus on economic conditions and competitiveness in wage setting, better safeguards employment in circumstances where the employer is unable to pay, and allows REAs to more readily be reviewed, challenged and cancelled. It also streamlines EROs by allowing for fewer sectors with EROs and a lower number of minimum wages set in each ERO, and by excluding employment conditions covered in other legislation. e.g., the Sunday pay rate. Next steps include a formal review of all EROs before re-negotiation under the new legislation can occur, most likely starting in 2013.

37. Against this backdrop, staff focused on policies to increase the potential for an employment-rich recovery and to contain structural unemployment.[21] Although economic recovery will be the main vehicle to reduce unemployment, it is important to help ensure that the recovery is job-rich, and that jobseekers are willing and able to fill positions when they become available.

38. Education and training policies will be crucial to facilitate mobility of the unemployed to other sectors for the economy. Given the high share of unemployed persons with lower educational attainment, and the expectation that formerly booming sectors will only partially recover, there is a need to improve skills among the unemployed to facilitate the inter-sectoral reallocation of labor. Hence staff considered that:

- ***Expansion of return-to-education programs*** like Youthreach, Back to Education, or Springboard is especially important, as short-term courses might be insufficient to provide jobseekers with marketable skills.

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[20] EROs, prepared by Joint Labor Committees (a government-appointed chairman and representatives of workers and firms) applied mostly to low-skill sectors such as retail, catering, and accommodation and set minimum wages for the sector (10 percent above the national minimum wage on average) as well as other employment conditions, such has overtime or Sunday rates. REAs are collective agreements registered with the Labor Court, which then became legally binding on the individual firm, or—in case of industry-wide agreements (mainly in construction and electrical contracting)—for all employees and workers in the sector. EROs and REAs cover approximately 23 percent of private sector workers (Report of the Independent Review of Employment Regulation Orders and Registered Employment Agreement Wage Setting Mechanisms, 2011).

[21] Averting structural unemployment is discussed in Chapter IV of the selected issues paper.

- ***Course provision should be increasingly driven by effectiveness in meeting labor market needs***. To achieve that, training outcomes should be evaluated on a regular basis, and the assessment results should be the key element in the decision process to expand or close the courses. In this respect, timely creation of the new authorities for further education and training (SOLAS and the Education and Training Boards) should be considered a priority, and the authorities could consider the introduction of a voucher system for courses.

- ***Reform of the Community Employment (CE) scheme should be considered***. Before it was moved to the Department of Social Protection, CE used to consume more than half of the training resources of the Irish National Training and Employment Authority. While a well designed public works program can help preserve jobseekers links with the labor market in an environment of depressed labor demand, it is important to ensure that over time entry to the scheme is limited to jobseekers without other employment possibilities. Moreover, participants should receive suitable training that will help them secure employment after their exit from the scheme.

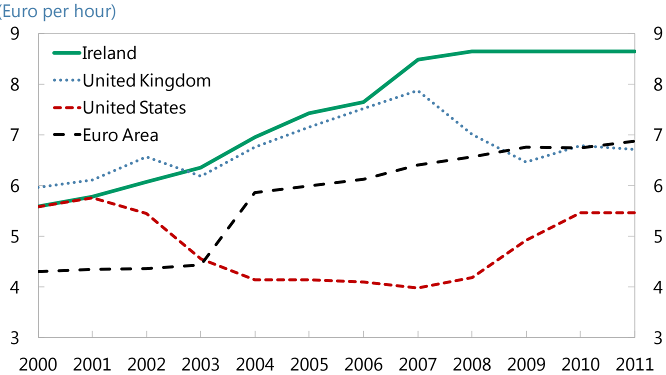
39. Enhancing resources to help the long-term unemployed get back into the workforce is also needed. Staff strongly supported the direction of reforms of activation policies under the Pathways to Work initiative and encouraged sustained implementation effort in this area. Reform of welfare payments to avoid unemployment and inactivity traps, and reviews of PRSI on low-incomes and of minimum wages, also warrant consideration to maximize the employment benefits of economic recovery. In particular:

- ***Private provision of employment services***. The number of employment services staff with case worker training is low relative to the number of unemployed, which may impede more active engagement, so additional well trained case workers are needed. Involving private sectors firms with the provision of activation services should be considered, especially for the long-term unemployed, though international experience indicates careful design of such arrangements is crucial.
- ***Principle of mutual obligation***. To ensure jobseekers meet their obligations to actively seek employment and improve their skills and qualifications so as to reenter the labor market, it is critical to strictly apply the system of sanctions for jobseekers that are not complying with activation and training requirements.
- ***Welfare benefits***. The flat structure of unemployment payments results in replacement rates for the long-term unemployed that are high by international standards. The highest replacement rates affect those also receiving housing benefits, resulting in unemployment and inactivity traps that lower exit rates from unemployment, making it especially important to reform to reform the structure of social payments in this area.

- ***Labor costs***. Almost 9 percent of the work force, or over 60 percent of the unemployed, have been out of work for over a year. In these circumstances, it is important to maximize opportunities to regain access to the job ladder. One step would be to retain the reduced rate of PRSI for the lowest pay beyond 2013 if the planned evaluation of this measure shows it to be effective. While there are relatively few workers employed at the National Minimum Wage (NMW) of €8.65 per hour for adults, this has a broader impact through wage setting in EROs and REAs which cover almost one-quarter of employment. A reduction in the NMW should be considered given the broad fall in consumer prices including rents in recent years, and because it is notably above the minimum wage in Northern Ireland and the United Kingdom despite the highly integrated labor market. Nonetheless, with jobseeker payments at about 62 percent of the NMW (assuming a 35 hour work week), there are limits to reductions given the need to ensure the NMW provides adequate incentives to take up employment.

Minimum Wage 1/

(Euro per hour)



Sources: OECD; IMF WEO; and IMF staff calculations.

1/ EA minimum wage is calculated as an average of the minimum wages in Belgium, Estonia, France, Greece, Ireland, Luxembourg, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

40. The authorities consider the reduction of unemployment a core priority. The Pathways to Work project is a major endeavor across a range of government bodies, and the authorities emphasized their full commitment to making the sustained effort needed to achieve a modern and effective approach to engaging with the unemployed and addressing their training and other needs to help them return to work. At the same time, they had no immediate plan to materially reform Community Employment, which played an important role in local communities. Regarding resources for employment services, they were considering how these needs could best be met, including the potential role for the private sector, where they had researched experience in Australia and the United Kingdom. The authorities noted they had identified issues in the structure of welfare payments, which are limited to a relatively small group of long-term unemployed also receiving housing supplements, and that the Housing Assistance Payment would address those incentive concerns. The authorities noted that as a share of average and median wages, Ireland's minimum wage was not so high when compared with other countries, and that both coalition partners in the government had agreed to reverse an earlier reduction in the national minimum wage, so the authorities were not planning to review this matter.

STAFF APPRAISAL

41. In the wake of an exceptionally deep banking crisis, the Irish authorities' steadfast efforts have restored policy credibility. Determined actions have been taken to restructure, downsize, and recapitalize banks at a cumulative public cost of some 40 percent of GDP. Budgetary efforts have necessarily been substantial but social cohesion has been maintained through careful design and sound implementation of fiscal measures. Together with strong support from European partners, and expectations of a further strengthening of that support, these efforts have helped rebuild confidence as demonstrated by the recent successful return to the sovereign bond market. The underlying strengths of Ireland's highly open economy allowed a return to growth in 2011 even as domestic demand continued to decline.

42. Risks to the economic outlook remain substantial nonetheless. The origin of Ireland's crisis lay in debts accumulated to support the banking system, yet public debt remains high and continues to grow. The banking system is still in the process of restructuring its assets and operations, and is not yet meeting the financing needs of the economy. Households are dealing with high debts and depleted net wealth and some face deep financial distress. High unemployment plays a key role in such distress, and it also undermines skills and drives emigration. Small and medium enterprises bear the brunt of weak domestic demand and also have debt distress and some face more limited access to credit. The euro area crisis creates uncertainty for both financial markets and fixed investment. In these circumstances, the risks to economic recovery remain high, with profound implications for debt sustainability, including through potential effects on bank health if weak growth were to persist.

43. Ireland must continue to deliver on the many difficult steps needed to underpin a sustained economic recovery. Fiscal consolidation remains a necessary condition for sustainable growth, but needs to be conducted in as growth-friendly manner as feasible. To best support growth during this consolidation a revival of domestic demand must be facilitated, while also enhancing competitiveness and the readiness of the unemployed to take up jobs, as an employment intensive recovery is needed to reduce unacceptably high unemployment.

44. Deep and sustained financial sector reform efforts are needed to restore banks' ability to support sound credit and revive domestic demand. The authorities have forcefully implemented their strategy to reorganize, recapitalize, and downsize the banking system, yet bank lending and profitability remain weak. A key remaining challenge is to arrest the deterioration in bank asset quality, where progress with loan workout and resolution has not advanced as rapidly as would be desirable. Ongoing supervisory pressure is needed for timely development of long-term solutions for distressed households, and to closely monitor their implementation over time. Intensive pursuit of a similar approach for loans to SMEs is important given their critical role in job creation. Reforms of the personal insolvency framework are key to help address borrower financial distress while maintaining debt service discipline and it will be important to ensure that the repossession framework complements these reforms in practice.

45. Returning the banks to profitability is needed for a lasting revival of lending, where breaking sovereign-bank linkages would greatly assist this process. Reducing funding and operational costs are needed to return the banks to profitability, and banks' plans to reduce

operational expenses must be fully implemented. Developing a roadmap to phase out the costly ELG Scheme in an orderly manner, while preserving access to funding, is appropriate. However, with limited viable funding alternatives, banks may continue to face high deposit rates. Temporary ownership of the banks by the ESM could overcome this hurdle, and by eliminating the need for guarantees and increasing access to other funding options, banks' profitability and value could be much improved. In the process, their capacity to provide sound lending could be restored more quickly, supporting Ireland's recovery.

46. Substantial further fiscal consolidation is needed, and a combination of strategies can help limit the impact on growth while protecting public services and the vulnerable. Careful targeting of spending is needed to deliver more immediate savings while ensuring supports and subsidies are directed to those who need them, where making benefits taxable is an option in some cases. State pensions are one area where targeted savings can be found, while further reductions in public sector wages cannot be excluded if wage bill targets cannot be met while ensuring adequate public services. Medium-term savings will entail deeper reforms of core government services, especially health and education, where service priorities must be identified, and reforms designed to deliver those services more efficiently so growing needs can be met at manageable cost. The Croke Park agreement can serve an important role in facilitating the timely implementation of these reforms. There is considerable scope for further base broadening measures to raise revenues while containing the drag on growth, and the introduction of a value-based property tax is important as a progressive and stable source of revenue.

47. Reducing unemployment requires firm implementation of a broad based approach. Although economic recovery will be the main vehicle to reduce unemployment, it is also important to ensure that jobseekers are willing and able to fill jobs when they become available. Realizing the full benefits of the Pathways to Work initiative will require additional well trained case workers to support jobseekers get back into employment, where involving private sector firms, especially for the long-term unemployed, could also play a useful role if well designed. Facilitating the mobility of jobseekers needs regular monitoring of training outcomes and effective delivery of further education and training. Reforming the structure of social benefits can support this strategy, especially by avoiding unemployment and inactivity traps for the long-term unemployed that are also receiving housing benefits, and other steps to reduce labor costs and promote a job-rich recovery should be explored.

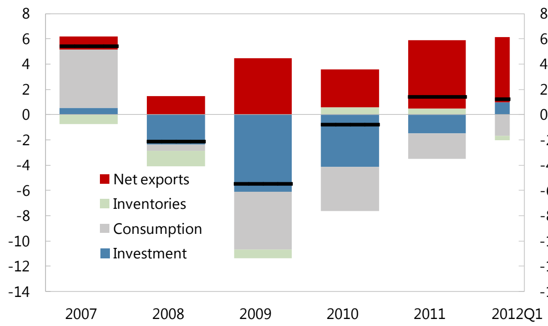
48. The prospects for these efforts to succeed hinge on stabilization and recovery across the euro area and strengthened European support. Ireland's small open economy has regained much of the competitiveness it lost during the boom, yet high trade and financial openness implies reliance on a revival of trading partner growth and calmer euro area financial conditions. Euro area leaders have pledged to break the vicious circle between banks and sovereigns by enabling the ESM to recapitalize banks directly, to treat similar cases equally, and to examine the situation of the Irish financial sector with the view of further improving the sustainability of Ireland's well-performing adjustment program. Meeting these commitments is critical to improving Ireland's debt sustainability and reviving sound lending, as stepping stones to ensuring Ireland's economic recovery and durable return to private financing.

49. The next Article IV consultation with Ireland is expected to take place on a 24-month cycle.

Figure 1. Real Sector and Inflation Indicators, 2006–12

Net exports were the main contributor to growth in Q1 2012…

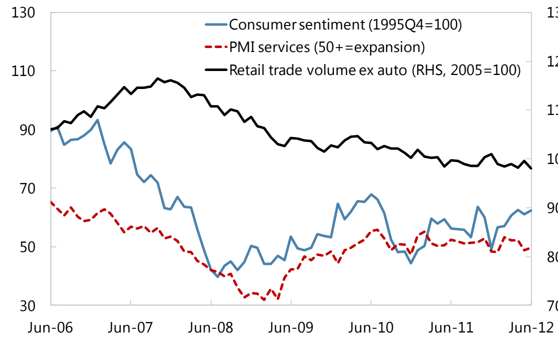
Contributions to Real GDP Growth
(Percent)



Sources: CSO; and IMF staff calculations.

…while the decline in consumption slowed somewhat.

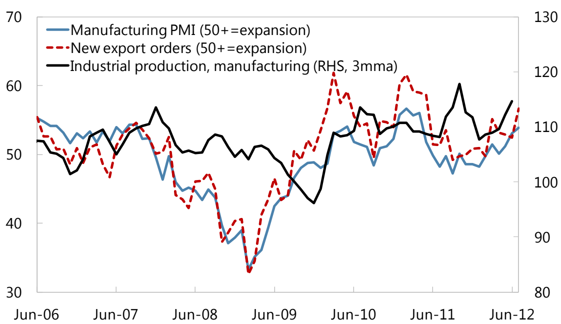
Retail Trade and Sentiment Indicators



Sources: Haver Analytics; NCB; ESRI; and Central Statistics Office Ireland.

Industrial production increased in the first half of 2012 together with export orders and sentiment indicators.

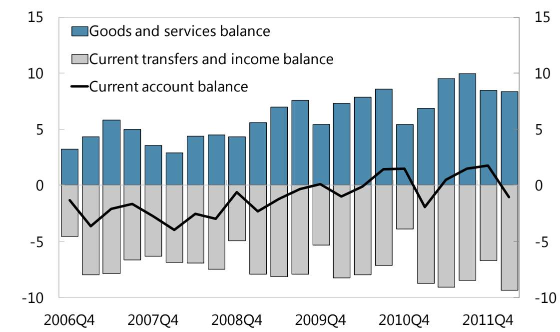
Export Indicators and Industrial Production



Sources: Haver Analytics; NCB; and Central Statistics Office Ireland.

The current account returned to a deficit in the first quarter of 2012 due to strong income outflows.

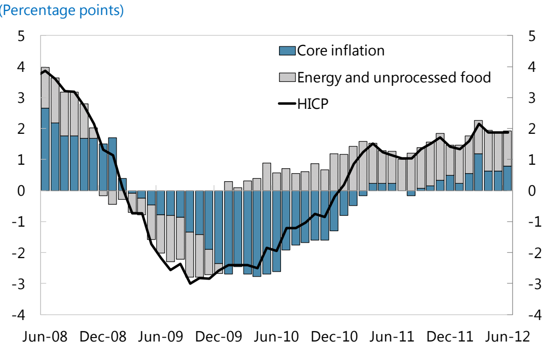
Current Account Balance Composition
(Billions of euros)



Sources: CSO; and Haver Analytics.

Inflation stayed below 2 percent, with energy and administered prices being the main contributors.

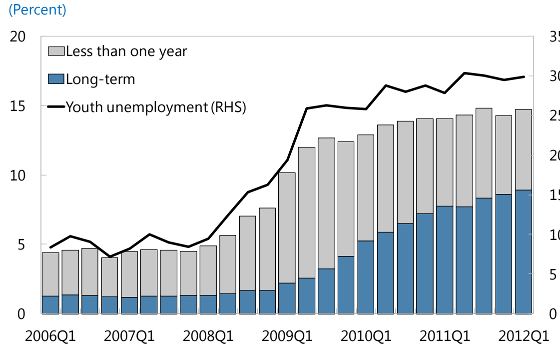
Contribution to Annual HICP Inflation
(Percentage points)



Sources: CSO; and IMF staff calculations.

Unemployment remained high, with over 60 percent long-term and youth unemployment at 30 percent.

Unemployment Rates
(Percent)

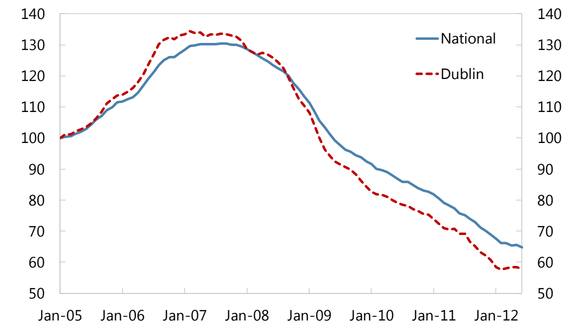


Sources: Haver Analytics; and Central Statistics Office Ireland.

Figure 2. Housing Developments, 2001–12

Property prices have halved from their 2007 peak, with Dublin house prices flat in H1 2012.

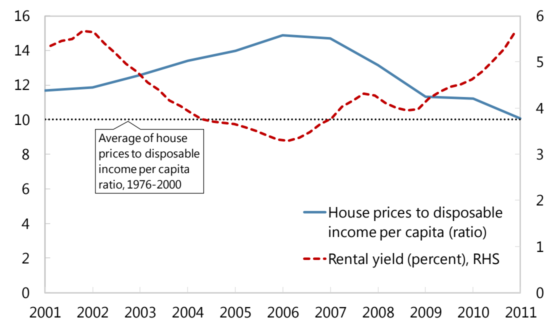
Residential Property Prices
(2005M1=100)



Sources: CSO.

Rental yields and the house price-to-income ratio may undershoot previous norms before stabilizing.

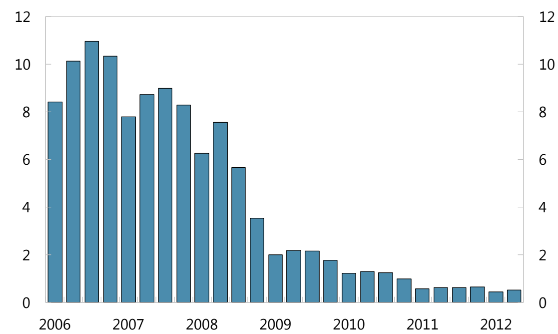
Indicators of Housing Valuation Levels



Sources: CSO; ESRI; and NTMA.

New mortgage lending has remained sluggish.

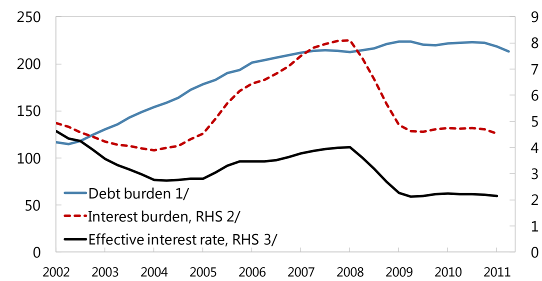
Loans for House Purchases
(Billions of euros)



Source: Irish Banking Federation/PWC.

Falling incomes counteract households' efforts to lower their debt burdens, yet there was a modest decline in 2011.

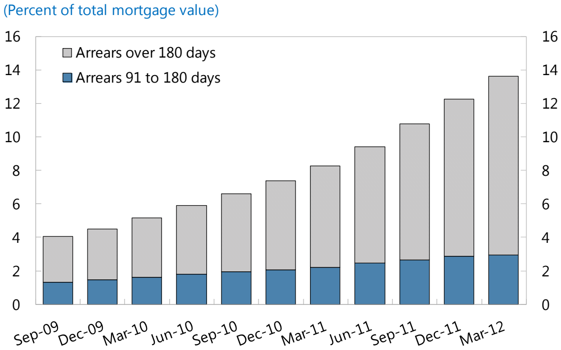
Household Debt and Interest Payments
(Percent of disposable income)



Sources: CBI; Haver Analytics; and IMF staff calculations.
1/ Total household liabilities in percent of four-quarter gross disposable income.
2/ Four quarter interest payments in percent of four-quarter gross disposable income.
3/ Four quarter interest payments in percent of previous quarter's total household liabilities.

Arrears accumulation continued, with almost 14 percent of mortgages by value in arrears in March 2012.

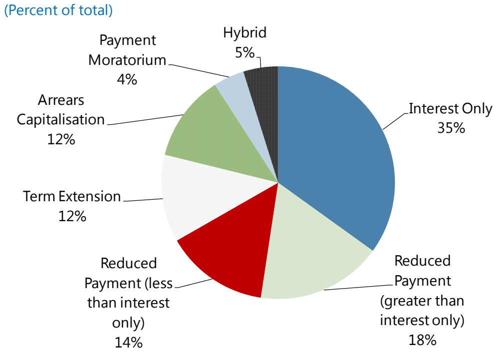
Mortgages in Arrears
(Percent of total mortgage value)



Source: Central Bank of Ireland.

Loan restructurings have primarily aimed at easing or stretching out loan service payments.

Restructured Mortgages by Type, March 2012
(Percent of total)

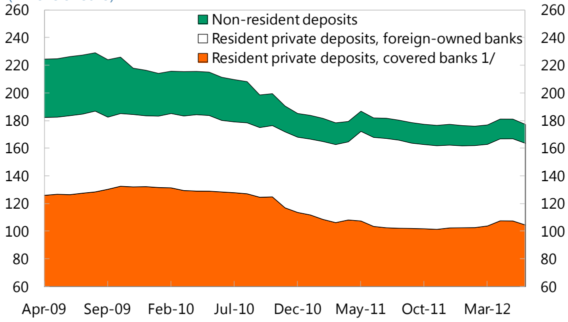


Source: Central Bank of Ireland.

Figure 3. Credit Developments, 2006–12

The level of private sector deposits has stabilized...

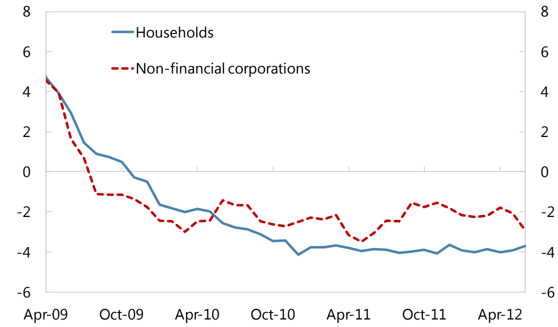
Bank Deposits
(Billions of euro)



Source: Central Bank of Ireland.
1/ Credit institutions covered by the Irish Government Eligible Liabilities Guarantee Scheme.

...but credit to households and corporations continue to contract at stable rates.

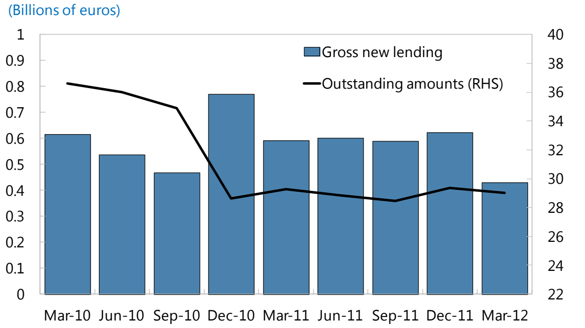
Loans Outstanding to Irish Residents
(Year-on-year percentage change)



Source: CBI.

Total SME credit remains flat since end 2010...

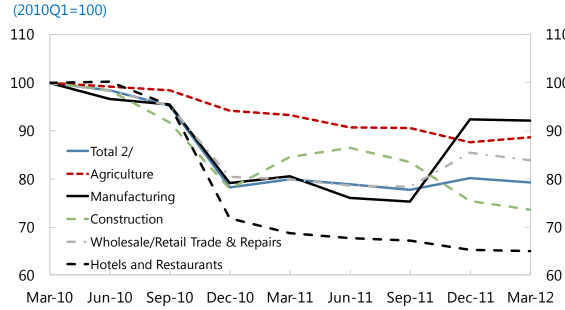
Outstanding SME Credit 1/
(Billions of euros)



Source: Central Bank of Ireland.
1/ All resident credit institutions, excluding real estate and financial intermediation.

...despite sectoral differences.

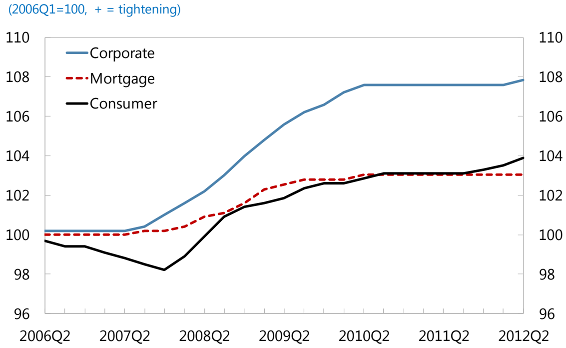
Outstanding SME Credit by Sector 1/
(2010Q1=100)



Source: Central Bank of Ireland.
1/ All resident credit institutions.
2/ Excludes real estate and financial intermediation.

Credit standards tightened modestly recently...

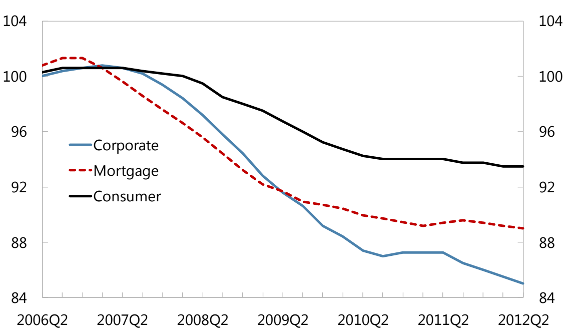
Changes in Credit Standards
(2006Q1=100, + = tightening)



Source: Central Bank of Ireland.

...and credit demand has shown further weakness.

Changes in Credit Demand
(2006Q1=100)

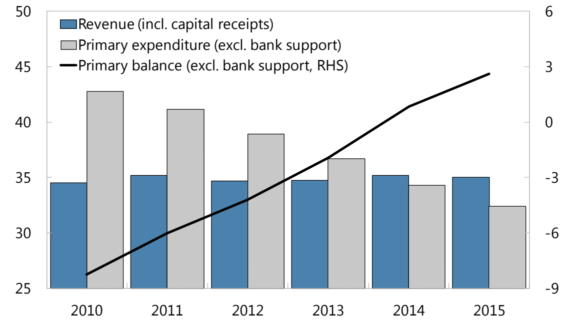


Source: Central Bank of Ireland.

Figure 4. Selected Trends in General Government Finances, 2007–15

Two-fifths of the 11 percent of GDP primary balance improvement (2010–15) will be achieved by end 2012…

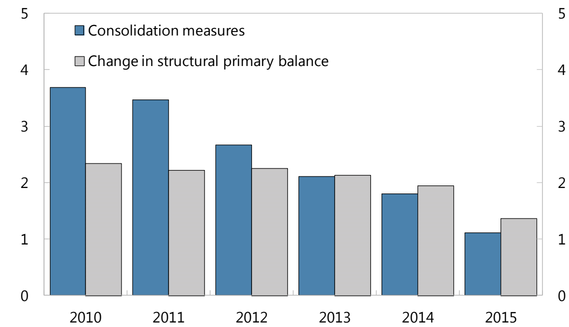
Revenues, Primary Expenditure and Balance
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

90 percent of the improvement is structural, in line with the programmed phasing of consolidation…

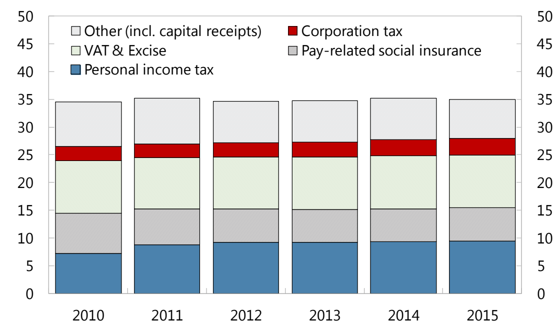
Consolidation Measures and Structural Primary Balance
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Given the weaker recovery in nominal domestic demand, tax measures will not raise revenues as a share of GDP.

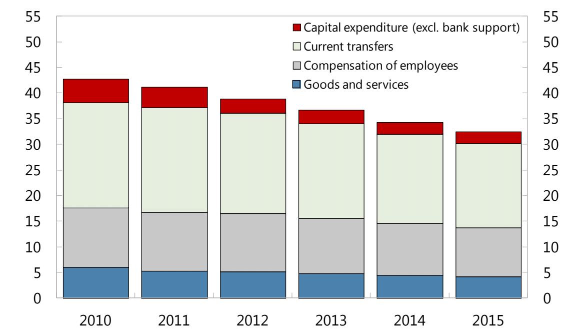
Revenue Composition
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Primary expenditures will fall by 10 percent of GDP, being broadly evenly spread across components.

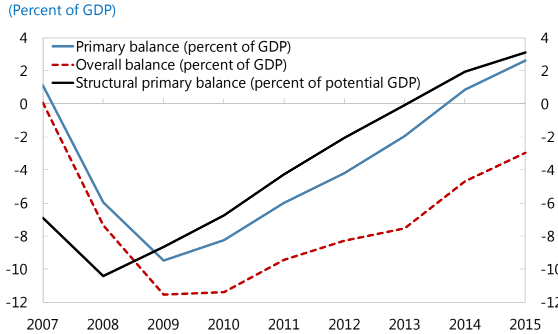
Primary Expenditure Components
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

A 3 percent of GDP overall deficit, and 2½ percent of GDP primary surplus, are targeted for 2015.

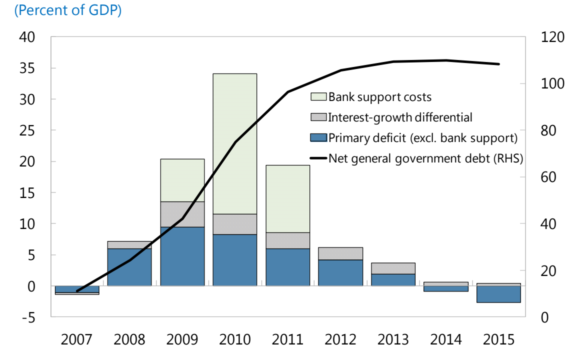
Headline, Primary and Structural Balance 1/
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.
1/ Excluding bank support.

It will take time to unwind the increase in net debt, three-fifths of which arose from bank support costs.

Sources of Increase in Debt-to-GDP Ratio
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Table 1. Ireland: Selected Economic Indicators, 2008–13
(Annual percentage change unless indicated otherwise)

	2008	2009	2010	2011	2012	2013
					Proj	
National accounts (constant prices)						
Real GDP	-2.1	-5.5	-0.8	1.4	0.4	1.4
Domestic demand	-3.7	-11.0	-4.3	-3.7	-2.3	-0.5
Private consumption	-0.1	-5.4	1.0	-2.4	-1.9	-0.2
Public consumption	0.6	-4.4	-6.5	-4.3	-2.5	-2.0
Gross fixed investment	-10.0	-27.6	-22.6	-12.6	-4.0	0.0
Net exports 1/	1.4	4.5	3.0	5.4	2.1	1.8
Exports of goods and services	-1.1	-3.8	6.2	5.1	2.8	3.5
Imports of goods and services	-3.0	-9.7	3.6	-0.3	1.0	2.4
Real GNP	-1.8	-8.1	0.9	-2.5	-0.6	0.7
Gross national saving (in percent of GDP)	16.1	12.6	12.8	11.4	11.6	12.3
Private	18.9	20.8	21.3	19.8	19.5	19.7
Public	-2.8	-8.2	-8.6	-8.4	-7.9	-7.4
Gross investment (in percent of GDP)	21.8	15.0	11.6	10.3	9.8	9.6
Private	16.4	10.9	7.9	7.6	7.8	7.7
Public	5.4	4.0	3.7	2.7	1.9	1.9
Prices, wages and employment (annual average)						
Harmonized index of consumer prices	3.1	-1.7	-1.6	1.1	1.4	1.0
Average wage, whole economy	3.5	-0.1	-2.2	-0.7	0.3	0.8
Employment	-1.1	-8.1	-4.2	-2.1	-0.8	0.4
Unemployment rate (in percent)	6.3	11.8	13.6	14.4	14.8	14.4
Money and credit (end-period) 2/						
Irish resident private sector credit 3/	8.8	-1.7	-3.7	-2.9	-3.3	...
Financial and asset markets (end-period) 2/						
Three-month interbank rate	2.9	0.7	1.0	1.4	0.7	...
Government bond yield (in percent, 10-year) 4/	4.4	4.9	9.2	8.5	6.2	...
Annual change in ISEQ index (in percent)	-33.8	-23.4	13.2	3.0	7.3	...
House prices	-5.9	-18.3	-13.1	-13.2	-14.4	...
Public finance (in percent of GDP)						
General government balance 5/	-7.3	-13.9	-30.9	-12.8	-8.3	-7.5
General government balance (excl. bank support)	-7.3	-11.5	-11.2	-9.1	-8.3	-7.5
Primary balance (excl. bank support)	-6.0	-9.4	-8.1	-5.9	-4.3	-2.1
General government gross debt	44.5	64.9	92.2	106.5	117.7	119.3
General government net debt	24.6	42.0	74.7	94.9	103.0	107.6
External trade and balance of payments (percent of GDP)						
Balance of goods and services	9.0	15.9	18.6	21.9	24.1	25.7
Balance of income and current transfers	-14.7	-18.2	-17.5	-20.8	-22.3	-23.0
Current account	-5.7	-2.3	1.1	1.1	1.8	2.7
Effective exchange rates (1999:Q1=100, average) 2/						
Nominal	111.6	112.5	107.8	108.6	105.5	...
Real (CPI based)	123.1	121.0	111.6	110.2	107.1	...
Memorandum items:						
Population (in millions) 6/	4.4	4.5	4.5	4.6	4.6	4.5
GDP per capita (in euros)	40,452	36,166	35,003	34,705	35,367	36,641
GDP (in billions of euros)	178.9	161.3	156.5	159.0	161.7	165.9

Sources: Bloomberg; Central Bank of Ireland; Department of Finance; International Financial Statistics; and IMF staff estimates.
1/ Contribution to growth.
2/ 2012 column refers to the latest available information: end-March fpr resident private sector credit, end-April for the competitiveness indicators, end-May for the three-month interbank rate, and end-June for other indicators.
3/ Adjusted growth rate of credit to households and non-financial corporations.
4/ For 2011, 9 year government bond yield is shown as no 10 year benchmark exists.
5/ General government balance per ESA95 definition.
6/ 2011 figure revised following prelimary results from the 2011 Census, 2007–10 to be revised when available.

Table 2. Ireland: Medium-Term Scenario, 2008–17
(Annual percentage change, unless indicated otherwise)

	2008	2009	2010	2011	2012	2012	2013	2014	2015	2016	2017
					6th Rev.			Proj.			
Real GDP	-2.1	-5.5	-0.8	1.4	0.5	0.4	1.4	2.5	2.8	2.8	2.9
Domestic demand	-4.3	-12.1	-8.1	-3.7	-2.1	-2.3	-0.5	1.2	1.8	2.1	2.3
Final domestic demand	-3.0	-11.4	-8.7	-4.3	-2.1	-2.3	-0.5	1.2	1.8	2.1	2.3
Private consumption	-1.1	-6.9	-3.7	-2.4	-1.7	-1.9	-0.2	1.4	1.8	1.8	2.0
Public consumption	0.5	-4.5	-8.2	-4.3	-2.0	-2.5	-2.0	-1.3	-1.0	0.0	0.0
Gross fixed investment	-10.2	-28.7	-25.9	-12.6	-4.5	-4.0	0.0	4.0	6.0	6.5	7.0
Change in stocks 1/	-1.2	-0.7	0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net exports 1/	1.4	4.5	3.0	5.4	2.2	2.1	1.8	1.6	1.5	1.3	1.2
Exports of goods and services	-1.1	-3.8	6.2	5.1	3.0	2.8	3.5	4.5	4.5	4.7	4.7
Imports of goods and services	-3.0	-9.7	3.6	-0.3	1.0	1.0	2.4	4.0	4.2	4.7	4.9
Real GNP	-1.8	-8.1	0.9	-2.5	-0.1	-0.6	0.7	1.9	2.2	2.3	2.5
Current account 2/	-5.7	-2.3	1.1	1.1	0.9	1.8	2.7	3.7	3.8	3.9	3.8
Gross national saving 2/	16.1	12.6	12.8	11.4	10.8	11.6	12.3	13.4	13.8	14.2	14.5
Private	18.9	20.8	21.3	19.8	18.3	19.5	19.7	18.4	16.7	16.2	16.1
Public	-2.8	-8.2	-8.6	-8.4	-7.5	-7.9	-7.4	-5.0	-2.8	-2.0	-1.6
Gross investment 2/	21.8	15.0	11.6	10.3	9.9	9.8	9.6	9.7	10.0	10.3	10.7
Private	16.4	10.9	7.9	7.6	7.7	7.8	7.7	8.0	8.3	8.7	9.1
Public	5.4	4.0	3.7	2.7	2.2	1.9	1.9	1.7	1.7	1.6	1.6
Prices											
Harmonized index of consumer prices	3.1	-1.7	-1.6	1.1	1.7	1.4	1.0	1.4	1.6	1.8	1.8
GDP deflator	0.5	-4.6	-2.2	0.2	1.2	1.3	1.2	1.4	1.6	1.6	1.7
Average wage, whole economy	3.5	-0.1	-2.2	-0.7	0.3	0.3	0.8	1.2	1.6	1.9	2.0
Labor market											
Employment	-1.1	-8.1	-4.2	-2.1	-0.8	-0.8	0.4	1.3	2.0	2.1	2.2
Unemployment rate (in percent)	6.3	11.8	13.6	14.4	14.3	14.8	14.4	13.7	13.1	11.5	10.6
Public finance											
General government balance 2/ 3/	-7.3	-13.9	-30.9	-12.8	-8.3	-8.3	-7.5	-5.0	-3.0	-2.2	-1.8
General government gross debt 2/	44.5	64.9	92.2	106.5	117.6	117.7	119.3	118.4	115.0	111.5	108.4
General government net debt 2/	24.6	42.0	74.7	94.9	105.6	103.0	107.6	108.7	107.2	104.0	101.1
Output gap 3/	3.5	-2.4	-3.3	-2.1	-2.7	-2.3	-2.0	-1.0	-0.3	0.2	0.4
Nominal GDP (in billions of euros)	178.9	161.3	156.5	159.0	159.2	161.7	165.9	172.4	180.2	188.3	196.9

Sources: Central Statistics Office; Department of Finance; and IMF staff estimates.
1/ Contributions to growth.
2/ In percent of GDP.
3/ General government balance per ESA95 definition

Table 3. Ireland: General Government Finances, 2008–17
(In billions of euros)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							Proj. 3/			
Revenue	63.0	54.1	53.2	54.2	55.8	57.3	60.0	62.5	64.5	67.2
Direct taxes	33.0	28.1	27.1	28.4	29.4	30.4	32.1	34.1	35.7	37.5
Personal income tax	13.2	11.8	11.3	13.8	14.9	15.2	16.0	17.1	18.0	19.1
Pay-related social insurance 1/	11.9	11.6	11.3	10.1	9.5	9.7	10.1	10.5	10.8	11.1
Corporate income tax	5.1	3.9	3.9	3.8	4.2	4.6	5.0	5.4	5.8	6.1
Capital taxes	2.9	0.8	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.2
Indirect taxes	20.5	16.3	15.7	15.8	16.2	16.8	17.7	18.1	18.8	19.5
Value-added tax	13.4	10.7	10.1	9.7	10.0	10.2	10.8	11.3	11.7	12.2
Excise tax	5.4	4.7	4.7	4.7	4.9	5.1	5.3	5.5	5.7	6.0
Stamp duty	1.7	0.9	1.0	1.4	1.3	1.5	1.6	1.2	1.3	1.3
Other revenue 2/	9.5	9.7	10.4	10.1	10.2	10.1	10.1	10.3	10.0	10.1
Expenditure (ex. bank support)	76.1	72.6	70.8	68.7	69.2	69.8	68.6	67.9	68.6	70.7
Current	63.3	65.4	64.3	63.8	64.9	65.6	64.6	63.9	64.5	66.5
Interest payments	2.4	3.2	4.9	5.1	6.5	8.9	9.5	10.0	9.7	10.5
Goods and services	10.0	9.8	9.0	8.3	8.4	7.9	7.6	7.4	7.6	7.7
Compensation of employees	21.1	20.5	19.0	18.9	19.0	18.8	18.5	18.2	18.5	18.8
Current transfers	29.8	31.9	31.4	31.6	31.1	29.9	29.0	28.3	28.8	29.5
Capital (excl. bank support)	12.8	7.2	6.5	4.9	4.4	4.2	4.0	4.0	4.1	4.2
Gross capital formation	9.8	6.1	5.5	4.2	3.1	3.1	3.0	3.0	3.1	3.1
Capital transfers (ex. bank support)	3.1	1.1	1.0	0.7	1.3	1.1	1.0	1.0	1.0	1.1
Bank support costs	0.0	4.0	30.9	5.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (ex. bank support) 4/	-13.1	-18.5	-17.6	-14.5	-13.4	-12.5	-8.6	-5.4	-4.1	-3.5
Including bank support	-13.1	-22.5	-48.4	-20.3	-13.4	-12.5	-8.6	-5.4	-4.1	-3.5
Primary balance (ex. bank support)	-10.7	-15.2	-12.6	-9.4	-7.0	-3.6	0.9	4.6	5.6	7.0
Including bank support	-10.7	-19.2	-43.5	-15.1	-7.0	-3.6	0.9	4.6	5.6	7.0
Memorandum items (in percent of GDP, unless indicated otherwise)										
Revenue	35.2	33.6	34.0	34.1	34.5	34.5	34.8	34.7	34.3	34.1
Direct	18.4	17.4	17.3	17.8	18.2	18.3	18.6	18.9	19.0	19.1
Indirect	11.5	10.1	10.1	9.9	10.0	10.2	10.3	10.0	10.0	9.9
Other	5.3	6.0	6.6	6.3	6.3	6.1	5.9	5.7	5.3	5.1
Expenditure (ex. bank support)	42.6	45.0	45.2	43.2	42.8	42.1	39.8	37.7	36.4	35.9
Primary current	34.1	38.5	38.0	36.9	36.1	34.2	32.0	29.9	29.1	28.5
Interest	1.3	2.0	3.1	3.2	4.0	5.4	5.5	5.5	5.1	5.3
Capital (ex. bank support)	7.2	4.4	4.1	3.1	2.7	2.5	2.3	2.2	2.2	2.1
Overall balance 4/	-7.3	-11.5	-11.2	-9.1	-8.3	-7.5	-5.0	-3.0	-2.2	-1.8
Including bank support	-7.3	-13.9	-30.9	-12.8	-8.3	-7.5	-5.0	-3.0	-2.2	-1.8
Primary balance	-6.0	-9.4	-8.1	-5.9	-4.3	-2.1	0.5	2.5	3.0	3.5
Including bank support	-6.0	-11.9	-27.8	-9.5	-4.3	-2.1	0.5	2.5	3.0	3.5
Structural balance	-11.5	-11.3	-10.1	-7.8	-6.3	-5.5	-3.6	-2.3	-2.1	-2.1
Structural primary balance 5/	-10.5	-9.1	-6.7	-4.5	-2.2	-0.1	1.8	3.2	3.1	3.3
General government gross debt	44.5	64.9	92.2	106.5	117.7	119.3	118.4	115.0	111.5	108.4
General government net debt	24.6	42.0	74.7	94.9	103.0	107.6	108.7	107.2	104.0	101.1
Output Gap (percent of potential GDP)	3.5	-2.4	-3.3	-2.1	-2.3	-2.0	-1.0	-0.3	0.2	0.4
Nominal GDP (in billions of Euros)	178.9	161.3	156.5	159.0	161.7	165.9	172.4	180.2	188.3	196.9

Sources: Department of Finance; IMF and staff estimates.

1/ Includes imputed social insurance contributions, which are recorded symmetrically under compensation of exployees. The 2011 downward jump in the series reflects the integration of health levy receipts into the universal social charge (now part of income tax).

2/ These include customs duties, unallocated tax receipts, training and employment levy, trading, rental and investment incomes, and transfers from the rest of the world (not elsewhere included).

3/ The projections for 2012–15 are consistent with the adjustment path set out in the Medium-Term Fiscal Statement and specified in Budget 2012.

4/ The overall balance corresponds to the general government balance, as per ESA95 definitions.

5/ In percent of nominal potential GDP.

Table 4. Ireland: Indicators of External and Financial Vulnerability, 2007–11	2007	2008	2009	2010	2011	2012 7/
External indicators						
Exports (annual percent change, value in euros)	8.3	-1.4	-2.5	7.8	5.7	3.9
Imports (annual percent change, value in euros)	9.5	-1.1	-10.1	6.6	2.8	1.9
Terms of trade (goods, annual percent change)	-1.5	-2.3	1.7	-1.2	-2.9	-0.1
Current account balance (in percent of GDP)	-5.4	-5.7	-2.3	1.1	1.1	1.8
Capital and financial account balance (in percent of GDP)	6.4	9.0	-1.4	4.2	-18.0	-14.8
Of which:						
Inward portfolio investment	86.7	-10.2	13.8	48.3	19.2	2.3
Inward foreign direct investment	9.6	-6.3	11.5	20.7	5.2	5.3
Other investment liabilities	92.4	86.0	-53.6	-39.6	-52.0	-43.3
U.S. dollar per euro (period average)	1.37	1.47	1.39	1.33	1.39	…
U.K. pound per euro (period average)	0.68	0.79	0.89	0.86	0.87	…
Financial markets indicators						
General government debt (in percent of GDP)	25.0	44.5	64.9	92.2	106.5	117.7
Government bond yield (in percent, 10-year, end-period) 1/	4.5	4.4	4.9	9.2	8.5	6.2
Spread of government bond yield with Germany (in percent, end of period)	0.1	0.5	2.0	3.2	7.1	4.9
Real government bond yield (in percent, 10-year, period average, based on HICP)	1.5	1.4	6.9	7.6	8.6	4.2
Annual change in ISEQ index (in percent, end of period)	-26.3	-33.8	-23.4	13.2	3.0	7.3
Personal lending interest rate (in percent)	11.7	11.9	11.1	11.4	11.6	11.6
Standard variable mortgage interest rate (in percent)	5.4	4.8	3.3	4.0	4.2	4.2
Financial sector risk indicators						
Annual credit growth rates (to Irish resident private sector, in percent) 2/	20.1	8.8	-1.7	-3.7	-2.9	-3.3
Personal lending as a share of total Irish resident credit (in percent)	39.6	35.2	35.6	35.8	30.0	30.0
Of which:						
House mortgage finance	32.8	29.0	30.1	30.6	25.4	25.5
Other housing finance	0.3	0.3	0.2	0.3	0.3	0.3
Other personal lending	6.5	5.9	5.3	5.2	4.6	4.5
Irish resident household mortgage debt annual growth rates (in percent) 3/	17.5	-7.1	-3.9	-9.0	-19.3	-19.0
Foreign-currency denominated assets (in percent of total assets)	36.5	31.7	34.3	30.3	29.4	29.4
Foreign-currency denominated liabilities (in percent of total liabilities)	41.1	35.5	31.1	25.8	26.3	25.9
Non-performing loans (in percent of total loans) 4/	0.8	2.6	9.0	8.6	9.1	9.8
Total provisions for loan losses (in percent of total loans)	0.4	1.2	4.0	4.2	4.8	5.2
Regulatory capital to risk-weighted assets of domestic banks (in percent)	10.7	10.6	10.9	10.4	17.5	17.8
Bank return on assets (before tax, in percent)	0.7	-0.3	-1.6	-3.1	-0.9	…
Bank return on equity (before tax, in percent)	16.4	-8.0	-40.6	-67.6	-18.2	…
Deposits to M3 ratio 5/	1.4	1.4	1.4	1.5	1.2	1.3
Loan-to-deposit ratio vis-à-vis Irish residents 6/	2.1	2.2	2.1	2.1	2.1	2.1
vis-à-vis total 6/	2.1	2.2	2.2	2.1	2.1	2.0
Concentration ratios in the banking sector						
No. of banks accounting for 25 percent of total assets	3	2	2	2	2	2
No. of banks accounting for 75 percent of total assets	15	14	13	13	14	14
Share of state-owned banks in total assets (in percent)	0.0	0.0	6.0	8.0	18	19
Share of foreign-owned banks in total assets (in percent)	32.2	62.0	65.0	66.0	62	59

Sources: Bloomberg; Central Bank of Ireland; International Financial Statistics; and IMF staff estimates.

1/ For 2011, 9 year government bond yield is shown as no 10 year benchmark exists.

2/ Adjusted growth rate of credit to households and non-financial corporations.

3/ Including securitisations.

4/ Owing to differences in classification, international comparisons of nonperforming loans are indicative only.

5/ Deposits vis-à-vis Irish and nonresidents.The M3 compiliation methodology has been amended in line with Eurosystem requirements.

6/ Nongovernment credit/nongovernment deposits ratio.

7/ For 2012, staff projections for macroeconomic variables and debt, end-March 2011 for banking sector indicators, and end-July for financial sector indicators. Financial sector indiators cover all credit institutions licensed in Ireland except for personal lending rate, which is calculated based on a sample of retail banks, and a mortgage interest rate, which is calculated excluding IFSC.

Table 5. Ireland: Summary of Balance of Payments, 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
					Proj.					
	(In billions of euros)									
Current account balance	-10.2	-3.8	1.8	1.8	3.0	4.5	6.3	6.9	7.3	7.6
Balance of goods and services	16.1	25.6	29.1	34.8	39.0	42.7	46.0	49.4	52.6	55.7
Trade balance	23.8	32.5	35.8	36.6	38.3	40.7	43.7	47.0	50.4	53.4
Exports of goods	81.0	77.6	82.6	84.9	87.2	91.4	96.4	101.8	107.3	112.1
Imports of goods	-57.2	-45.2	-46.9	-48.3	-49.0	-50.7	-52.7	-54.8	-56.9	-58.7
Services balance	-7.7	-6.9	-6.6	-1.8	0.7	1.9	2.3	2.4	2.2	2.3
Credit	67.9	67.6	74.3	81.4	86.1	90.2	95.2	100.5	106.8	114.7
Debit	-75.6	-74.5	-81.0	-83.3	-85.4	-88.3	-92.9	-98.1	-104.6	-112.4
Income balance	-25.2	-27.9	-25.9	-31.8	-34.8	-36.9	-38.4	-41.2	-43.9	-46.7
Credit	84.0	55.1	57.1	55.9	54.4	54.6	56.7	58.3	60.0	61.9
Debit	-109.2	-83.0	-83.0	-87.7	-89.2	-91.5	-95.1	-99.4	-103.9	-108.6
Current transfers (net)	-1.2	-1.4	-1.4	-1.2	-1.2	-1.2	-1.3	-1.3	-1.4	-1.4
Capital and financial account balan	16.2	-2.3	6.6	-28.7	-23.9	-15.8	-6.3	-6.9	-7.3	-7.6
Capital account balance	0.0	-1.3	-0.7	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Financial account	16.1	-1.1	7.3	-28.4	-23.7	-15.6	-6.1	-6.6	-7.0	-7.2
Direct investment	-24.2	-0.6	15.4	11.3	11.6	11.3	10.9	11.0	10.8	10.6
Portfolio investment	-45.7	22.6	86.0	27.5	1.0	-0.9	-2.5	-2.1	-2.5	-2.8
Other investment	86.1	-23.1	-32.2	-67.6	-37.8	-23.7	-13.1	-14.6	-15.4	-15.4
Change in reserve assets 1/	-0.1	0.1	0.0	0.3	1.5	-2.2	-1.3	-0.9	0.1	0.3
Net errors and omissions	-6.0	6.1	-8.4	-7.6	-0.8	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	34.5	21.7	11.3	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	0.0	34.5	21.7	11.3	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	12.6	6.5	3.5	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	21.9	15.2	7.9	0.0	0.0	0.0	0.0
	(In percent of GDP)									
Current account balance	-5.7	-2.3	1.1	1.1	1.8	2.7	3.7	3.8	3.9	3.8
Balance of goods and services	9.0	15.9	18.6	21.9	24.1	25.7	26.7	27.4	27.9	28.3
Trade balance	13.3	20.1	22.8	23.0	23.7	24.6	25.4	26.1	26.8	27.1
Services balance	-4.3	-4.3	-4.2	-1.1	0.4	1.2	1.3	1.3	1.2	1.2
Income balance	-14.1	-17.3	-16.6	-20.0	-21.5	-22.3	-22.3	-22.8	-23.3	-23.7
Current transfers (net)	-0.6	-0.9	-0.9	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Capital and financial account balan	9.0	-1.4	4.2	-18.0	-14.8	-9.5	-3.7	-3.8	-3.9	-3.8
Of which:										
Direct investment	-13.5	-0.4	9.9	7.1	7.2	6.8	6.3	6.1	5.7	5.4
Portfolio investment	-25.6	14.0	54.9	17.3	0.6	-0.6	-1.4	-1.2	-1.3	-1.4
Other investment	48.1	-14.3	-20.5	-42.5	-23.4	-14.3	-7.6	-8.1	-8.2	-7.8
Change in reserve assets 1/	0.0	0.0	0.0	0.2	0.9	-1.3	-0.8	-0.5	0.0	0.1
Net errors and omissions	-3.4	3.8	-5.4	-4.8	-0.5	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	21.7	13.4	6.8	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	0.0	21.7	13.4	6.8	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	7.9	4.0	2.1	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	13.8	9.4	4.7	0.0	0.0	0.0	0.0

Sources: Central Bank of Ireland; Central Statistics Office; and IMF staff estimates.
1/ Includes financing need to build reserves for bank support.

Table 6. Ireland: Monetary Survey, 2008–12
(In billions of euros, unless otherwise indicated; end of period)

	Dec-08	Dec-09	Dec-10	Dec-11	Jun-12
Aggregate balance sheet of domestic market credit institutions					
Assets	801	798	742	634	604
Claims on Central Bank of Ireland	9	12	8	4	6
Claims on Irish resident Other MFIs	125	129	123	92	81
Claims on Irish resident non MFIs	374	363	357	338	332
General government	3	9	43	42	45
Private sector	371	354	314	296	287
Claims on non-residents	250	241	206	147	138
Other assets	44	54	47	52	46
Liabilities	801	798	742	634	604
Liabilities to Eurosystem 1/	45	58	95	72	76
Liabilities to Irish resident Other MFIs	126	131	132	99	87
Deposits of Irish resident non MFIs	170	180	161	144	145
General government	3	3	3	2	3
Private sector	167	176	157	141	142
Deposits of non-residents	271	229	137	98	90
Debt securities	100	98	64	52	41
Capital and reserves	41	53	71	91	97
Other liabilities (incl. Central Bank of Ireland)	48	50	83	78	69
Money and credit 2/					
Net foreign assets	-100	-75	-67	-39	…
Central Bank of Ireland 3/	-24	-37	-128	-101	…
Commercial banks	-77	-38	61	62	52
Net domestic assets	295	283	239	208	…
Public sector credit	3	10	43	43	46
Private sector credit	394	375	335	324	313
Other	-102	-102	-139	-158	…
Irish Resident Broad money (M3) 4/	194	208	173	169	168
Irish Resident Intermediate money (M2) 4/	176	188	173	167	166
Irish Resident Narrow money (M1)	78	100	97	90	89
	(percent of GDP)				
Public sector credit 5/	1.4	5.3	27.5	26.6	28.5
Private sector credit 5/	207.4	219.4	200.8	186.1	177.8
	(y-o-y percentage change)				
Broad money - Irish contribution to euro area M3 6/	-0.4	-5.3	-19.5	1.3	-9.8
Irish Public sector credit 6/ 7/	101.8	176.9	369.4	1.5	15.3
Irish Household and non-financial corporations credit 6/ /7	8.8	-1.5	-3.4	-2.9	-3.4
<u>Memorandum items: 8/</u>					
Credit to deposits (in percent) 9/	222.8	200.8	200.0	209.2	201.7
Deposits from Irish Private Sector (y-o-y percent change)	1.1	2.1	-9.8	-9.2	-2.8
Wholesale funding (billions of euros)	439.6	422.8	315.3	233.6	203.2
Deposits from MFIs	339.4	324.8	251.1	182.0	162.6
Debt securities	100.2	98.1	64.3	51.6	40.6
Wholesale funding (y-o-y percent change) 10/	14.9	0.1	-21.9	-27.1	-19.5
Wholesale funding (percent of assets) 10/	54.8	53.0	44.8	36.8	33.3

Sources: Central Bank or Ireland and staff estimates.
1/ Relating to Eurosystem monetary policy operations.
2/ Including banks in the International Financial Service Centre.
3/ Sourced from quarterly IIP statistics.
4/ Differs from the M3 (M2) Irish contribution to euro area as only liabilities vis-a-vis Irish residents are used.
5/ Refers to credit advanced by domestic market credit institutions.
6/ Includes IFSC.
7/ Growth rates adjusted for valuation, reclassification, derecognition/loan transfer to non-MFIs, and exchange
8/ Excludes IFSC.
9/ Domestic market credit institutions' private sector credit to deposits.
10/ Includes resident and non-resident MFI deposits, and debt securities issued.

Annex I. Assessing Ireland's External Sector Risks [1]

Ireland's external debt is high and the net international investment position (IIP) has reached negative 100 percent of GDP (though large valuation changes contributed to this deterioration). While the current account moved into surplus in 2010 and 2011, it did so in an environment of falling domestic demand which compressed imports. A range of methodologies indicate that the real effective exchange rate remains moderately overvalued, by around 5–10 percent, and the unemployment rate of 14.8 percent underscores the need to further improve competitiveness to support a job-rich recovery.

Net International Investment Position and External Debt

Ireland's net negative IIP is large. Excluding the IFSC, it deteriorated from about minus 55 percent of GDP in the years to 2007 to minus 92 percent of GDP in 2009 and has remained around that level since. The level of the net IIP was not regarded as an issue during the boom because of its moderate size and the collapse in risk premiums prior to the crisis. However, as the financial crisis started to unfold, the value of Ireland's gross foreign assets halved, while the retrenchment in external financing lowered foreign liabilities, though to a smaller extent, resulting in an enlarged negative net IIP. It is important to note that the extent of the fall in the net IIP was not matched by the cumulative current account deficit, suggesting that valuation changes, especially on the foreign assets, may have contributed significantly to the deterioration (see Lane (2012)). Rising gross government debt added to the negative net position as the Irish authorities resorted to official funding. The net external liabilities of the CBI also grew, due to an increased reliance of domestic banks on Eurosytem funding, although most of this substituted for private wholesale lending, *de facto* reducing the external risks. At the end of Q1 2012 Ireland's gross external debt stood at around 300 percent of GDP, 40 percent of which was official external debt of the general government and CBI.

Current Account Improvement

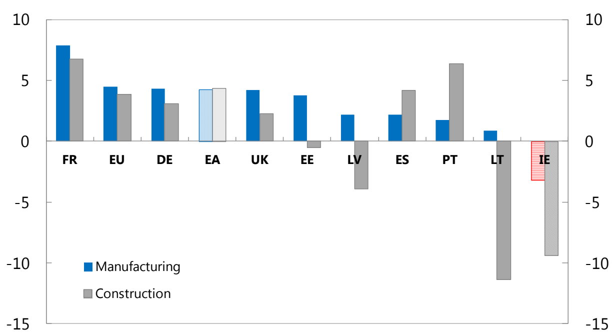
Current account adjustment is already underway, albeit in part due to cyclical factors. Exports have risen 14 percent since 2009, with goods exports registering 9 percent growth, while services exports increased by over 20 percent. However, declining domestic demand compressed merchandise imports, which in 2011 stood 15 percent below their pre-crisis peak. As a result, the current account balance recorded a surplus of 1.1 percent of GDP in 2010 and 2011, significantly improved from the peak deficits of over 5 percent of GDP in 2007–08.

[1] The analysis excludes the International Financial Services Centre (IFSC), which comprises of a broad range of financial institutions including banks, insurance companies, investment funds, and their support firms, which provide financial services mostly to nonresidents, constituting a *de facto* offshore financial center.

Real Exchange Rate Developments

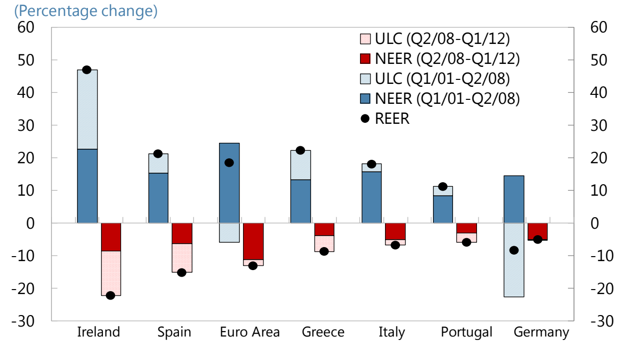
Indicators based on consumer prices and ULCs indicate that the real exchange rate remains moderately overvalued, although the size of the competitiveness gap is narrowing. Since the peak in 2008, the CPI-deflated REER fell 17.5 percent while the ULC-deflated REER declined even more (around 22 percent). Productivity improvements and falling ULCs were the major factors behind this depreciation, though they came at the cost of significant labor shedding—some 16 percent since 2008—resulting in an unemployment rate of 14.8 percent. Nominal labor costs fell by 3 percent since the 2009 peak, which is more significant when compared with the 4½ percent rise in nominal labor costs in the euro area during the same period. The weakening euro helped as well, given Ireland's extensive trade links with non-euro area countries (notably, the United Kingdom and United States).

Change in Labor Costs in Manufacturing and Construction
(Percent, 2009-2011)



Source: Eurostat.

Contributions to Changes in REER 1/
(Percentage change)



Sources: ECB; Eurostat; IMF INS; Haver Analytics; and IMF staff calculations.
1/ Changes are with respect to the peak for Ireland which was in 2008-Q2.

However, compositional changes in the economy have led to some overstatement of the competitiveness improvement by conventional measures. A contraction of a low-productivity yet high-wage sector (e.g. construction) could lead to an increase in average productivity and a fall in average wages in the economy even if no changes in other sectors took place. CBI (2011) estimates that compositional effects could account for 40 percent of the decline in the headline ULC between 2007 and 2010 (see also O'Brien (2010)).

Real Exchange Rate Assessment

Standard methods of assessing the real exchange rate indicate that it remains moderately overvalued:

- Direct estimation of the deviation from equilibrium of the real exchange rate based on a set of macroeconomic variables points to 8 percent overvaluation under the CGER[2]-type Equilibrium Real Exchange Rate method, and 12 percent overvaluation under External

[2] See Lee et al. (2008), "Exchange Rate Assessments: CGER Methodologies," IMF Occasional Paper No. 261

Balance Assessment. This is in part due to a modest overvaluation of the euro, notwithstanding its recent nominal depreciation.

- The CGER-type Macrobalance Approach indicates a norm for the current account of a 0.6 percent of GDP deficit. This is below the projected underlying value of the current account of 2.4 percent of GDP, which the medium-term projection adjusted for any remaining output gaps. Nonetheless, as the projection allows for a 2.5 percent real exchange rate depreciation given high unemployment, this approach suggests that the exchange rate is fairly valued.

- A variant on the CGER-type Sustainability Approach would note that a higher current account balance would be required to unwind the large negative IIP. For example, to reduce the net IIP liability to a lower level of 35 percent of GDP (the indicative guideline for net foreign liabilities under the European Commission's Macroeconomic Imbalance Procedure) in the next ten years, Ireland would have to run a current account surplus of around 4 percent of GDP each year. To stabilize the current account balance at this level thereafter would require additional depreciation, implying around 3.5 percent overvaluation.

Policy implications

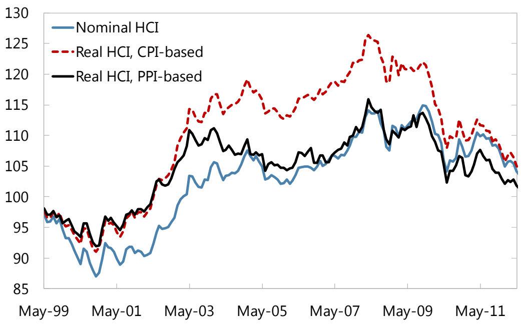
Even as the large negative net IIP position is not a pressing source of risk, further competitiveness gains are important to help accelerate the reduction in unemployment. The IIP can be expected to improve over time, in part as a result of private saving exceeding investment in order to reduce private debt, and also as a consequence of continued fiscal consolidation needed to ensure public debt sustainability. Further improvements in competitiveness will facilitate this adjustment being achieved with higher overall activity levels. Setting aside the external sector perspective, there is also a need for further improvements in competitiveness in order to encourage a job-rich recovery, where strong growth in the tradable sector is important to compensate for the likelihood that the recovery in domestic demand will be a protracted process.

Annex Figure 1. Ireland: Competitiveness Indicators

Competitiveness continues to improve, helped by nominal depreciation of the euro…

Harmonized Competitiveness Indicators (Monthly)

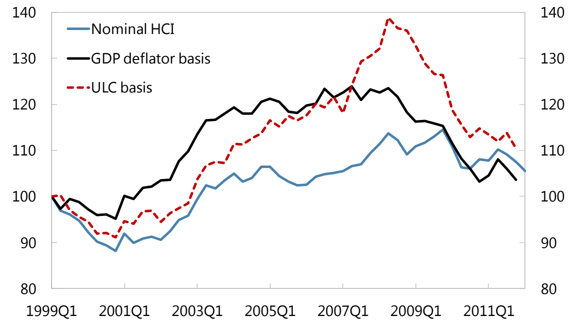
(1999Q1=100)



Source: CBI; and Haver Analytics.

Harmonized Competitiveness Indicators (Quarterly)

(1999Q1=100)

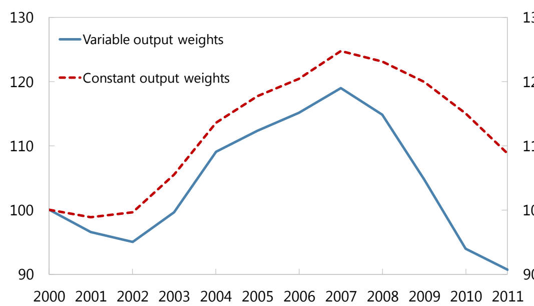


Source: CBI; and Haver Analytics.

…though part of the decline reflects a compositional shift to higher value-added sectors.

Relative Unit Labor Cost in Manufacturing

(2000=100)



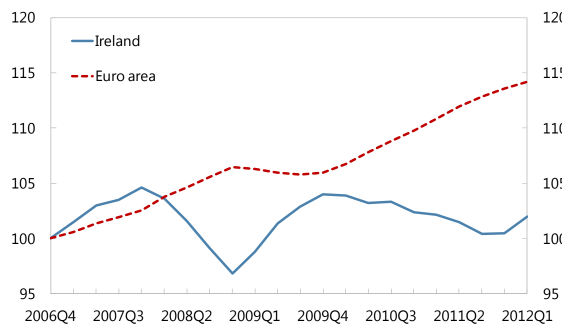
Source: Central Bank of Ireland.

Preliminary data for 2011 is based on average of the first 3 quarters.

Private wages have risen in the first quarter, but less compared to the euro area developments…

Hourly Labor Costs in Manufacturing

(2006=100; 4-quarter moving average)

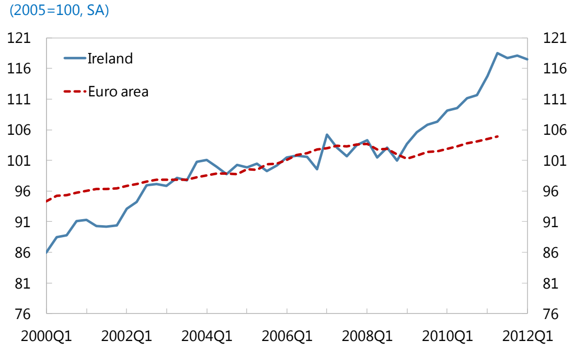


Sources: CSO; Eurostat; Haver Analytics; and IMF staff calculations.

…while labor productivity has risen faster than in the euro area in recent years, though the improvement stalled since the second half of 2011.

Real Labor Productivity

(2005=100, SA)

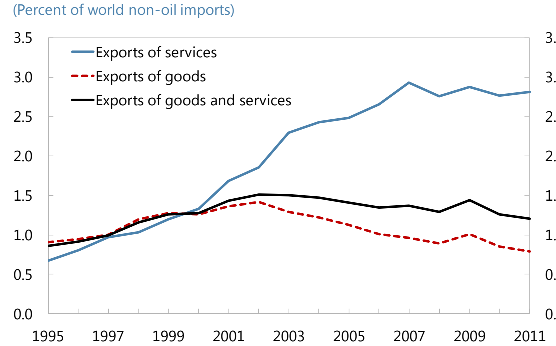


Source: Eurostat.

As yet, competitiveness improvements have not been reflected in rising market shares.

Export Shares

(Percent of world non-oil imports)



Sources: IMF WEO; and IMF staff calculations.

Annex II. Debt Sustainability Analysis

This Annex presents the public and external debt sustainability analysis based on staff's revised medium-term macroeconomic framework and the Irish authorities' fiscal consolidation plan.

General Government Debt

The upward revision in nominal GDP has resulted in a lower debt path. An upward revision of nominal GDP by 1.6 percent in 2011 has lowered the debt ratio by some 1.7 percentage points.[1] Combining the higher 2011 GDP outturn with the slightly lower growth path in staff's medium term scenario (see Table 2) reduces the debt ratio by some 0.9 percentage points in the medium term. Overall, debt is projected to peak at 119 percent in 2013, slightly lower than in the previous review and some 5 percentage points below the projection at program inception.

While prefinancing has temporarily increased gross debt in 2012, fiscal consolidation will put debt on a declining path after 2013. The authorities' decision to prefinance a larger portion of their 2013 financing needs increases gross debt temporarily by €3.2 billion (2 percent of GDP). The resulting end 2012 cash buffer is projected to increase to a very strong €18 billion (11 percent of GDP) before returning to previous levels during 2013.[2] Based on the authorities' continued adherence to their medium-term fiscal plans, the primary deficit is assumed to fall below the debt stabilizing threshold in 2014. Under the baseline scenario of a deficit declining towards its 0.5 percent of GDP Medium-Term Objective by 2019, gross general government debt is projected to fall to 94 percent of GDP by 2021.

Risks to debt sustainability remain high:

- ***Risks to growth are the key concern***. A slower economic expansion in the medium term could easily derail the baseline outlook, with debt rising to 146 percent of GDP by 2021 if GDP growth were to stagnate at ½ percent per year. Close fiscal-banking linkages could also cause additional debt-increasing outlays if banks incur additional loan losses under such a scenario. However, a temporary growth shock remains manageable. If GDP growth temporarily slowed to only ½ percent in 2013 (vis-à-vis the current projection of 1.4 percent) before accelerating along the current baseline path, gross general government debt would instead peak at 120 percent of GDP before declining to 96 percent by 2021.

- ***Contingent liabilities present a sizable risk***. Identified contingent liabilities are falling as the ELG Scheme is phased out. However, as long as the state continues to own large stakes in the banking system, economic shocks can amplify risks to debt sustainability given the potential realization of contingent liabilities from banking losses. Other contingent liabilities

[1] See http://www.cso.ie/en/media/csoie/releasespublications/documents/latestheadlinefigures/qna_q12012.pdf.

[2] The cash buffer is based on the assumption that financing contingencies are not being spent.

arise from NAMA and IBRC. The IBRC meets bank capital requirements, and NAMA acquired assets at heavy discounts—averaging 57 percent—to protect its viability. Nonetheless, asset recoveries by both institutions in the coming years remain subject to property price and other risks. A standard 10 percent contingent liability shock would capture one-third of the gross contingent liabilities from NAMA and IBRC, and would impose a parallel shift on the debt path, taking it to 105 percent of GDP in 2021, compared with 94 percent in the baseline.

Ireland Contingent Liabilities
(in percent of projected 2012 GDP)

Senior NAMA bonds	18.9
Guarantees for Emergency Liquidity Assistance	10.0
Other Bank Liabilities covered by Eligible Liability Scheme	18.6
Total	**47.5**

Source: Irish authorities; and IMF staff calculations.

- ***Divestments of state participation in the banking sector are an upside risk.*** No allowance for ESM equity investments in the banking sector or other bank equity divestments is made. Similarly, the projections do not allow for the modest state asset disposal program, as preparations are still underway and half the proceeds are to be reinvested.

- **Interest rate shocks pose less immediate risks to the debt trajectory**. Ireland has a high share of fixed rate borrowing which shields it from the immediate effect of higher interest rates. The interest bill is also contained by the fact that one third of the debt stock consists of official debt at yields below prevailing market rates. The current baseline scenario includes the effect of higher average interest rates as Ireland returns to market financing at elevated spreads. An additional shock to the cost of new funding (including short term debt) of 200 basis points would have a negligible impact in the short run. If such a shock was sustained, it would increase the effective interest rate by 140 basis points in 2021, and debt would decline more gradually to 101 percent of GDP in 2021.

External Debt

The external debt of the non-IFSC sector continues to decline, though it remains at a very high level.[3] At the end of Q1 2012, it fell to around 300 percent of GDP, from 322 percent of GDP recorded in 2011.[4] This decline mostly represented a continued fall in the external debt of the Central Bank of Ireland, as Target 2 liabilities declined as banks reduced their reliance on Eurosystem funding. At the same time, debt of the general government continued to rise as the authorities drew on the external support under the EU-IMF program, though this increase was more than offset by falling debt of the other sectors.

[3] The discussion focuses on the non-IFSC sector, as the IFSC principally serves nonresidents.

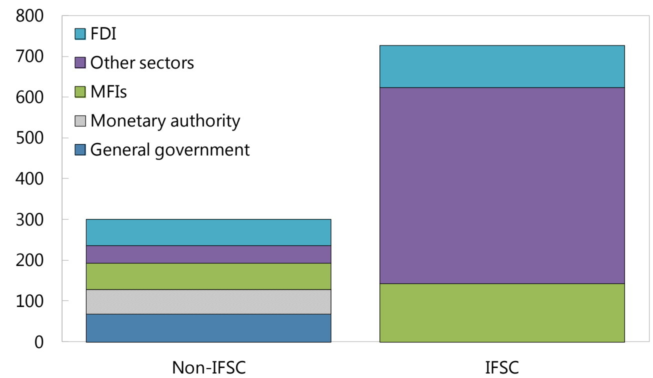
[4] This gross debt figure includes debt of large multinational corporations, including both intra-company and intra-group debt, which is expected to be sizable in Ireland.

By 2017, external debt is expected to fall to 212 percent of GDP, but this forecast is subject to substantial downside risks. A macroeconomic scenario at historical averages would not put the debt-to-GDP ratio on a declining path, bringing the external debt to over 316 percent of GDP in 2017. A permanent ½ standard deviation shock to growth, implying a renewed recession in 2013 and significantly slower recovery thereafter would raise the medium-term debt-to-GDP ratio to 239 percent of GDP. A permanent ½ standard deviation shock to the non-IFSC current account (excluding interest payments) would raise debt by around 22 percentage points compared to the baseline in the medium term. A standard combined shock of ¼ of the standard deviation applied to the current account, interest rates, and the GDP growth rate would increase debt to 241 percent of GDP in the medium term.

Including the IFSC, total external debt remains very high, at around 1,025 percent of GDP in Q1 2012, down from 1,075 percent at end 2011. In addition to a reduction in the non-IFSC debt, the IFSC has reduced its gross external debt by 27 percentage points of GDP since end 2011. The net IIP deteriorated to 100 percent of GDP as the IFSC's net IIP position turned negative, while non-IFSCs reduced their external exposure.

External Debt Composition, 2012-Q1

(Percent of projected 2012 GDP)



Sources: Central Statistics Office Ireland; and IMF staff calculations.

Ireland: Net International Investment Position

(In percent of GDP)

	2005	2006	2007	2008	2009	2010	2011	Q1-2012
Assets	1,031	1,132	1,203	1,276	1,503	1,697	1687	1673
Direct investment abroad	54	52	54	68	127	163	153	158
Portfolio investment abroad	615	692	709	707	839	932	901	954
Other investment abroad	362	388	439	501	536	602	633	560
Reserve assets	0	0	0	0	1	1	1	1
Liabilities	1,056	1,137	1,222	1,353	1,596	1,786	1783	1773
Direct investment to Ireland	85	67	73	76	108	137	122	128
Portfolio investment to Ireland	629	689	705	716	908	1,066	1085	1101
Other investment to Ireland	342	382	444	561	580	583	576	545
Net investment position	-25	-5	-20	-76	-93	-89	-96	-100
Direct investment, net	-31	-15	-19	-8	19	26	30	31
Portfolio investment, net	-15	4	5	-9	-69	-134	-184	-147
Other investment, net 1/	20	6	-5	-60	-44	18	57	16
Reserve assets	0	0	0	0	1	1	1	1
Memorandum items								
Net IIP of the IFSC							15	-1
Net IIP of the non-IFSC							-111	-99

Source: Central Statistics Office.

1/ Includes valuation changes and errors and omissions.

Annex I Table 1. Ireland: Public Sector Debt Sustainability Framework, 2007-2021 1/
(In percent of GDP, unless otherwise indicated)

	Actual					Projections										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Debt-stabilizing primary balance 10/
1 Baseline: General government debt	24.8	44.2	65.2	92.5	106.5	117.7	119.3	118.4	115.0	111.5	108.4	105.0	101.2	97.6	94.1	1.2
2 Change in general government debt	0.1	19.4	20.9	27.3	14.0	11.3	1.6	-0.9	-3.4	-3.4	-3.1	-3.4	-3.8	-3.6	-3.5	
3 Identified debt-creating flows (4+7+12)	-1.6	8.7	23.9	35.7	18.0	6.5	4.5	0.5	-2.1	-2.8	-3.0	-3.3	-3.7	-3.5	-3.4	
4 Primary deficit	-1.1	6.0	9.7	8.1	5.9	4.3	2.1	-0.5	-2.5	-2.9	-3.5	-4.2	-4.7	-4.6	-4.6	
5 Revenue and grants	36.3	35.0	33.7	34.1	34.1	34.5	34.5	34.8	34.7	34.3	34.1	34.1	34.1	34.1	34.1	
6 Primary (noninterest) expenditure 2/	35.1	40.9	43.4	42.2	40.0	38.8	36.7	34.3	32.1	31.3	30.6	29.9	29.4	29.5	29.5	
7 Automatic debt dynamics 3/	-0.5	2.8	7.4	5.1	1.5	2.2	2.4	1.0	0.4	0.2	0.5	0.9	1.0	1.1	1.2	
8 Contribution from interest rate/growth differential 4/	-0.5	2.8	7.4	5.1	1.5	2.2	2.4	1.0	0.4	0.2	0.5	0.9	1.0	1.1	1.2	
9 Of which contribution from real interest rate	0.7	2.0	3.9	3.4	2.8	2.6	4.0	3.9	3.6	3.3	3.5	3.5	3.6	3.5	3.6	
10 Of which contribution from real GDP growth	-1.2	0.8	3.5	1.7	-1.3	-0.4	-1.6	-2.9	-3.2	-3.1	-3.1	-2.6	-2.5	-2.4	-2.3	
11 Contribution from exchange rate depreciation 5/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...	...	
12 Other identified debt-creating flows	0.0	0.0	6.8	22.5	10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (bank recapitalization) 6/	0.0	0.0	6.8	22.5	10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 7/	1.7	10.7	-3.0	-8.4	-4.0	4.7	-3.0	-1.4	-1.3	-0.7	-0.1	-0.1	-0.1	-0.1	-0.1	
General government debt-to-revenue ratio	68.5	126.5	193.1	271.0	312.0	341.0	345.4	340.2	331.7	325.6	317.7	307.7	296.6	286.0	275.9	
Scenario with key variables at their historical averages 9/						117.7	117.8	119.3	121.0	123.3	126.2	129.1	132.1	135.1	138.1	1.5
Scenario with no policy change (constant primary balance) in 2012-2021						117.7	121.5	125.4	128.8	132.7	137.4	142.8	148.4	154.2	160.4	2.0
Key Macroeconomic and Fiscal Assumptions Underlying Baseline																
Real GDP growth (in percent)	5.2	-3.0	-7.0	-2.6	1.4	0.4	1.4	2.5	2.8	2.8	2.9	2.5	2.5	2.5	2.5	
Average nominal interest rate on public debt (in percent) 10/	4.5	5.3	4.1	4.7	3.6	3.8	4.7	4.8	4.9	4.7	5.0	5.0	5.2	5.3	5.4	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.2	7.6	8.2	5.0	3.1	2.5	3.5	3.4	3.2	3.1	3.4	3.4	3.6	3.7	3.8	
Nominal appreciation (increase in US dollar value of local currency, in percent)	7.4	0.0	-5.4	-5.1	-0.3	...	...	...	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	1.3	-2.3	-4.1	-0.3	0.5	1.3	1.2	1.4	1.6	1.6	1.7	1.6	1.6	1.6	1.6	
Growth of real primary spending (deflated by GDP deflator, in percent) 2/	14.2	13.0	-1.4	-5.2	-3.9	-2.6	-4.2	-4.2	-3.6	0.3	0.5	0.2	0.7	2.8	2.6	
Primary deficit 2/	-1.1	6.0	9.7	8.1	5.9	4.3	2.1	-0.5	-2.5	-2.9	-3.5	-4.2	-4.7	-4.6	-4.6	

1/ General government gross debt. The projections include Fund and EU disbursements. Government-guaranteed NAMA bonds are excluded, based on Eurostat guidance. From 2018, no policy change is assumed.

2/ Excluding bank support costs.

3/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

4/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

5/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

6/ Total bank recapitalization costs net of proceeds, including funds provided by the National Pension Reserve Fund.

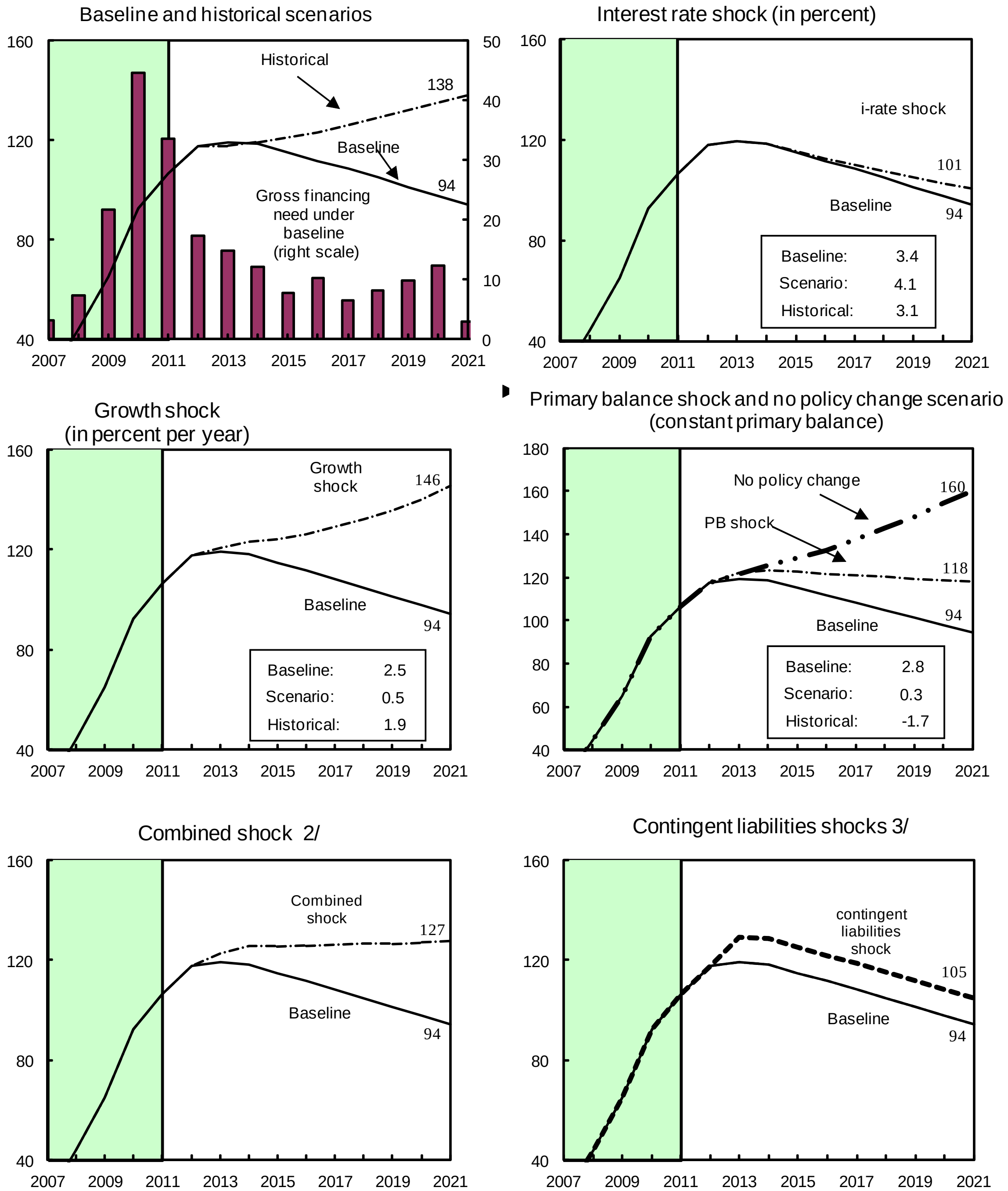
7/ For projections, this line includes exchange rate changes.

8/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt and short-term debt at end of previous period, and bank recapitalization costs.

9/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

10/ Derived as nominal interest expenditure divided by previous period debt stock.

Annex I Figure 1. Ireland: Public Debt Sustainability: Bound Tests 1/
(General government debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. The interest rate shock is a permanent 200 basis point shock applied to short-term debt and new market lending, the growth shock is a stagnation of growth at 0.5 percent per annum, and the primary balance shock is a one-half standard deviation shock. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to the growth rate , interest rate, and primary balance.
3/ One-time 10 percent of GDP shock to contingent liabilities occur in 2013.

Annex I Table 2. Ireland: External Debt Sustainability Framework, 2007-2017
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2007	2008	2009	2010	2011			2012	2013	2014	2015	2016	2017	Debt-stabilizing non-interest current account 6/
1 Baseline: External debt	**258.9**	**305.0**	**325.6**	**333.7**	**322.1**			**308.7**	**291.9**	**271.7**	**250.4**	**230.6**	**211.8**	**-0.8**
2 Change in external debt	51.7	46.1	20.6	8.1	-11.6			-13.4	-16.7	-20.2	-21.3	-19.8	-18.8	
3 Identified external debt-creating flows (4+8+9)	-2.6	22.8	36.2	18.0	-0.8			-9.2	-13.1	-16.2	-16.9	-15.9	-15.0	
4 Current account deficit, excluding interest payments	1.0	-6.2	-5.5	-14.1	-19.2			-20.3	-19.7	-18.5	-18.7	-18.6	-18.4	
5 Deficit in balance of goods and services	-5.5	-5.0	-11.1	-13.8	-17.0			-17.8	-19.2	-20.0	-20.7	-21.1	-21.3	
6 Exports	69.0	72.0	78.0	86.8	91.0			92.1	94.0	95.5	96.4	97.6	98.6	
7 Imports	-63.5	-66.9	-66.8	-73.0	-73.9			-74.3	-74.9	-75.4	-75.7	-76.5	-77.4	
8 Net non-debt creating capital inflows (negative)	0.0	-0.6	-2.5	6.0	2.6			-7.2	-6.8	-6.3	-6.1	-5.7	-5.4	
9 Automatic debt dynamics 1/	-3.7	29.6	44.2	26.1	15.7			18.3	13.4	8.6	7.9	8.5	8.7	
10 Contribution from nominal interest rate	8.3	15.4	10.9	16.1	21.0			19.4	17.6	15.6	15.3	15.3	15.1	
11 Contribution from real GDP growth	-10.6	5.8	18.5	2.6	-4.7			-1.1	-4.2	-7.0	-7.4	-6.8	-6.3	
12 Contribution from price and exchange rate changes 2/	-1.5	8.5	14.8	7.4	-0.6			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	54.3	23.3	-15.6	-9.8	-10.8			-4.2	-3.7	-4.0	-4.4	-3.9	-3.7	
External debt-to-exports ratio (in percent)	375.2	423.9	417.7	384.4	354.1			335.2	310.4	284.7	259.8	236.3	214.8	
Gross external financing need 4/	17.7	57.3	393.9	354.7	337.5			330.6	325.7	320.9	316.3	312.8	309.1	
in percent of GDP	9.4	32.0	244.3	226.7	212.3			204.5	196.3	186.1	175.5	166.1	157.0	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	308.7	310.1	311.6	313.1	314.7	316.2	
Key Macroeconomic Assumptions Underlying Baseline														
Nominal external interest rate (in percent)	4.3	5.6	3.2	4.8	6.4	4.6	1.3	6.1	5.9	5.6	5.9	6.4	6.8	
Growth of exports (in percent)	8.4	-1.2	-2.3	8.0	6.5	4.0	4.7	2.9	4.8	5.5	5.6	5.8	5.7	
Growth of imports (in percent)	9.5	0.0	-10.0	6.0	2.9	2.7	7.1	2.2	3.4	4.7	4.9	5.5	5.8	
Current account balance, excluding interest payments	-1.0	6.2	5.5	14.1	19.2	5.6	8.4	20.3	19.7	18.5	18.7	18.6	18.4	
Net non-debt creating capital inflows	0.0	0.6	2.5	-6.0	-2.6	-2.9	4.1	7.2	6.8	6.3	6.1	5.7	5.4	

1/ Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
e = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock. ρ increases with an appreciating domestic currency (ε > 0) and rising inflation (based on GDP deflator).

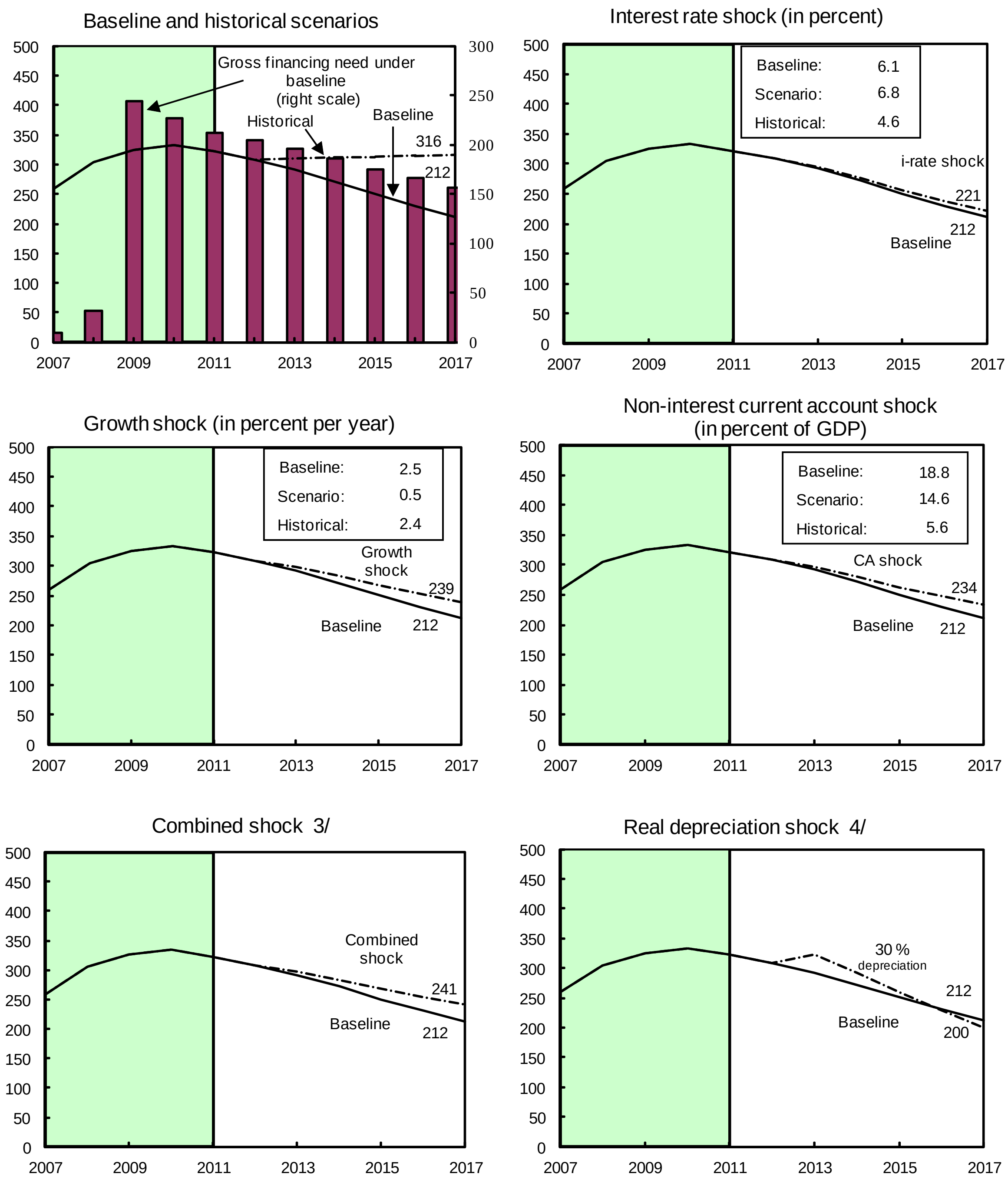
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels
of the last projection year.

Annex I Figure 2. Ireland: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Ireland desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2013.

INTERNATIONAL MONETARY FUND

IRELAND

Seventh Review Under the Extended Arrangement

Prepared by the European Department
(In consultation with other departments)

Approved by Ajai Chopra and James Roaf

August 21, 2012

Delivery: Half way through their EU-IMF supported program, the Irish authorities maintain vigorous policy implementation. All performance criteria and indicative targets for end June were met, and two structural benchmarks were observed. Statements of stronger European support lowered bond spreads and helped the sovereign return to the bond market in July, yet major financial sector and fiscal adjustment challenges remain.

Tasks ahead: Two workstreams drive the program toward sustained economic recovery:

- ***Restoring sound credit to revitalize domestic demand***. Banks' arrears management strategies, on both residential mortgages and SME loans, must be accelerated, supported by conservative valuation and provisioning norms and the new personal insolvency bill. Banks also need to be weaned off costly government liability guarantees and must also cut operating costs to support profitability and lending.
- ***Deepening the credibility of fiscal consolidation***. The fiscal responsibility bill, plans to provide a statutory basis for multi-year expenditure ceilings, and the coming update of the Medium-Term Fiscal Statement are key steps. Most measures for 2013–15, including the introduction of a value-based property tax in 2013, should be set out at the time of Budget 2013. If growth disappoints and significant additional adjustment needs arise, the latter could be spread over 2014–15 to help protect the recovery.

Euro area summit: Material investments in Irish banks by the ESM could transform the public debt outlook, cut the bank–sovereign link, and cement a needed win for Europe.

Proposed Decision: Staff supports the authorities' request for completion of the seventh review under the extended arrangement. The purchase subject to completion of this review would be in an amount equivalent to SDR 0.758 billion (about €0.9 billion).

Transparency: The Irish authorities consent to publication of this staff report.

Contents Page

I. BACKGROUND

1. **Half way through Ireland's EU-IMF supported program, policy implementation remains vigorous**. Despite considerable headwinds stemming from an adverse global economic outlook and the ongoing EMU crisis, the Irish authorities have pressed forward and delivered on all key milestones under the program. Fiscal consolidation has continued steadfastly and significant steps have been taken to reform the financial sector. All quantitative macroeconomic targets for the program review have been met (MEFP Table 2), as well as the structural benchmark for end-June 2012 (MEFP Table 1).

2. **When implemented, recent European commitments could decisively improve program prospects**. The June 29 statement of the euro area summit noted that the Eurogroup will examine the situation of the Irish financial sector with the view of further improving the sustainability of the well-performing adjustment program, and also affirmed the imperative of breaking the vicious circle between banks and sovereigns. The resulting boost to Irish sovereign debt markets enabled Ireland to make a significant bond issuance on July 26. Making this first step into a durable return to the sovereign debt market is critical, and Fund staff are working with the EC, ECB, and Irish authorities on technical solutions to achieve the summit statement objectives for consideration by the Eurogroup.

3. **This report is to be read in conjunction with that for the 2012 Article IV consultation with Ireland**. In particular, a description of recent economic developments, including developments in the financial sector, is provided in section II of the staff report for the Article IV consultation. Section III of the Article IV staff report provides a discussion of the economic outlook and risks, and Annex II provides the analysis of debt sustainability.

II. POLICY DISCUSSIONS

4. **The policy discussions focused on supporting recovery and regaining sustainable access to market funding**. In the financial sector, the central goal is to ensure the conditions for renewed lending on a sustained basis. Fiscal consolidation needs remain substantial, and discussions included steps to deepen the credibility of medium-term consolidation plans. Discussions on structural reforms emphasized growth and job creation, including through modest investment financed in part by European institutions.

A. Financial Sector

5. **The financial sector reform agenda aims to renew healthy lending in support of Ireland's economic recovery.** The main components of the agenda are:

- **Completing financial sector restructuring:** the restructuring plan for Permanent TSB, refining the framework guiding the deleveraging of banks to minimize risks to lending and deposit interest rates, and restoring the viability and solvency of the credit union sector.

- **Strengthening asset quality**: addressing rising mortgage arrears and monitoring progress in the implementation of banks' loan modification strategies, and the implementation of the newly introduced personal insolvency bill.

- **Returning to profitability**: the principal focus is on reducing funding costs related to the Eligible Liability Guarantee (ELG) Scheme and high deposit rates. Cutting operating costs through the implementation of banks' restructuring plans is also a priority.

- **Protecting financial stability**: preparations for the next stress test, collateral valuation and provisioning practices, and further enhancing financial supervision.

6. **The authorities submitted to the European Commission a restructuring plan for Permanent TSB (PTSB) to ensure its viability** (MEFP ¶3). It is being reorganized into three business units: (i) the core retail bank, which will be the viable bank franchise; (ii) an asset management unit (AMU) to house legacy assets, which includes poorer quality and impaired assets; and (iii) the U.K. residential mortgage operation, which will be divested as soon as conditions permit.[1] The separation into the three units should occur by end-September, which will enable monitoring of each of the units according to separate management accounts. The plan seeks the timely legal and financial separation of the AMU, which is deferred pending the Eurogroup's consideration of the situation of the Irish financial sector following the June 29 euro area summit statement.

7. **A range of efforts are underway to enhance banks' profitability and lending.** To help reduce funding costs, the authorities are continuing to phase out the costly ELG Scheme, and will develop a roadmap for weaning banks off the scheme while preserving financial stability by end 2012 (MEFP ¶5). Already the U.K. unit of BoI is no longer covered, and deposits placed with AIB's U.K. units will not be covered by the scheme after August. Operating costs are also being reduced through headcount reductions and branch closures, with reductions of about 3,400 staff by end 2013 included in banks' restructuring plans. Though deleveraging has progressed on track, the monitoring framework will be streamlined to the existing nominal targets for disposal and run-off of non-core assets (MEFP ¶4).[2] The goal is to minimize any risks to core lending and potential pressures on deposit interest rates that could arise from the former targets on the loan to deposit ratio.

8. **The banking supervision framework will be further enhanced and preparations continue for the Prudential Capital Assessment Review (PCAR) 2013 exercise**. The first phase of preparations for the 2013 stress tests is complete, and the CBI is requiring the development of risk mitigating actions by PCAR banks in relation to credit data and

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[1] For additional information, see Box 4 in Ireland: Sixth Review Under the Extended Arrangement.

[2] A total of €41.8 billion in asset disposals and run-offs has been completed by end April 2012, compared with the end 2013 target of €70.2 billion. The main deviation from the original plan has been to defer the sale of PTSB's U.K. mortgage operation (Capital Home Loans).

documentation, to be completed by end September 2012 (MEFP ¶6).[3] Collateral valuation guidelines will be revised by end 2012 and the CBI will conduct supervisory reviews on PCAR banks implementation of provisioning and impairment guidelines (by end-March 2013). In addition, the CBI is enhancing its reviews of risk-based capital models, including banks' approaches to forecasting and stress testing of risk weighted assets, in advance of PCAR 2013 (MEFP ¶7).

9. **The authorities continue to advance the process of restoring the viability and solvency of the credit union sector**. On the regulatory front, the authorities published the general scheme of a Bill strengthening the regulatory framework for credit unions in late June. To help the sector return to viability, the Bill provides for the establishment of a Restructuring Board, which will work with credit unions to deliver agreements on restructuring proposals, and will also assist in their implementation.[4] These proposals will be subject to CBI regulatory approval, and the CBI will engage its resolution powers as needed, drawing on Resolution Fund resources if required following discussions with the EC to address competition policy issues stemming from the operation of the resolution framework.[5] Regulations for the levy to support the Resolution Fund should be adopted by end September (MEFP ¶8).

10. **Banks' strategies to address loan arrears are being strengthened and tested, and their implementation of loan modification will be subject to close monitoring by the CBI**. To address rising mortgage arrears, at CBI's request the banks are preparing to roll out a set of loan modification options by year end, and are piloting a number of these in the interim (MEFP ¶9). The CBI will ensure that appropriately conservative regulatory and accounting treatments of loan modification options are applied. To track the banks' implementation of mortgage arrears resolution strategies, the CBI will publish a set of key performance indicators on a quarterly basis starting at end 2012 (MEFP ¶10). Including indicators of debtor sustainability among these indicators, e.g., borrowers' monthly payments relative to income, could provide for a useful gauge of progress. A similar framework is in development for SME loans.

11. **Preparations are being advanced to implement the new personal insolvency framework.**[6] The Personal Insolvency Bill introduced to parliament at the end of June proposes three new debt settlement procedures and amends the Bankruptcy Act, including by shortening the automatic discharge period to 3 years in judicial bankruptcy.[7] Payments under a settlement are determined based on debtors' payment capacity while safeguarding a

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[3] PCAR banks refers to Bank of Ireland (BoI), Allied Irish Banks (AIB), and Permanent TSB (PTSB).

[4] The Minister for Finance has indicated overall resource needs on the order of €0.5 to €1 billion.

[5] For background on the CBI's powers under the Central Bank and Credit Institutions (Resolution) Act 2011, see Box 2 in Ireland: Fourth Review Under the Extended Arrangement.

[6] An overview of the new regime is in Box 2 of Ireland: Fifth Review Under the Extended Arrangement.

[7] See http://www.oireachtas.ie/viewdoc.asp?fn=/documents/bills28/bills/2012/5812/b58112d.pdf.

reasonable standard of living, with debt service discipline upheld by stringent eligibility criteria, creditor vote by qualified majority, and by court approval. The involvement of the courts in the debt settlement procedures is welcome although adequate personnel and operational resources will need to be redeployed to this important area. The draft legislation is expected to be developed further at the committee stage of parliamentary discussions scheduled for September, prior to its expected adoption later this year (MEFP ¶11). Staff has recommended some refinements, such as regarding the procedures for the valuation of assets, to enhance the effectiveness of the proposed regime. Pending guidance on reasonable household expenses and on the licensing and supervision of personal insolvency practitioners is essential for well-balanced and efficient reform outcome (MEFP ¶12).

B. Fiscal Policies

12. **Fiscal performance to end July 2012 is ahead of expectations**. At 4.5 percent of GDP, the exchequer primary deficit (excluding bank-related costs and delayed 2011 corporation tax receipts) was 0.7 percent of GDP below that in the corresponding period of 2011. Similarly, the end-June 2012 performance criterion on the cumulative exchequer primary balance was met by a healthy margin of ½ percent of GDP (MEFP Table 2).[8] Income tax, VAT and corporation tax collections drove a total revenue over performance of 0.3 percentage points of GDP. Much of this surplus, however, was offset by additional health spending and jobseeker payments owing to higher unemployment. The health sector overrun reflected factors including an inability to meet budgetary targets on hospital activity, under-collection of income from private health insurers, a smaller-than-planned shift to generic drugs, and higher-than-expected expenditure in respect of "grace period" retirements.[9]

13. **The budget remains on track for the 2012 deficit target, but challenges to reaching 2013 targets have increased.** The robust revenue performance in 2011and thus far in 2012 appears consistent with a stronger starting position implied by the recent upward revision of nominal GDP for 2011, and some of this favorable base effect is likely to carry forward. For 2012, a general government deficit of 8.3 percent of GDP is projected, within the program ceiling of 8.6 percent of GDP. This projection assumes that revenue over performance in the first half will be maintained, and that the recently announced corrective measures in relation to the health sector overrun will cap it at its current level.[10] Looking to

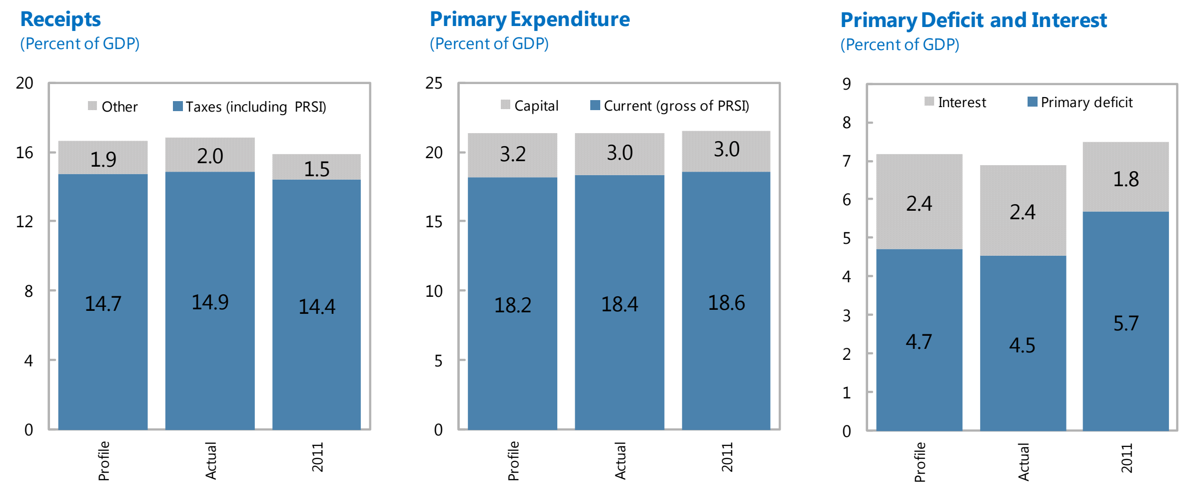
[8] Net central government debt was below the corresponding end-June indicative target by 1.2 percent of GDP owing to higher-than-expected revenues and lower-than-profiled interest costs.

[9] A "grace period," which allowed staff to retire on terms linked to salaries before the 2010 pay cut, expired at end-February 2012. Higher-than-expected retirements in the health sector, including in respect of staff returning from career breaks, imply net pay and pension savings will be below budgeted levels in 2012.

[10] The announced measures include realigning hospital activity with budgeted levels; rolling back some additional programs; adjusting rosters to reduce overtime, agency and absenteeism-related costs; generating higher income from private patients in public hospitals; faster processing of private health insurance claims; and legislating to improve the governance of the Health Services Executive and to allow greater generic drug use. The authorities expect these measures would eliminate the 0.2 percent of GDP overrun seen at end-May 2012.

2013, the markdown in growth projections makes the nominal deficit targets harder to attain, and exacerbates concerns around pro-cyclical tightening.

Cumulative Exchequer Outturn, January–July, 2012



Sources: Department of Finance; and IMF staff estimates.

PS: To facilitate comparability, (i) the €251 million corporation tax payment delayed from December 2011 into January 2012 is excluded from both the 2012 tax profile and outturn; (ii) the €462 million in interest payments met in Jan-July 2011 via drawdown of the Capital Services Redemption Account (CSRA) are included in the 2011 "exchequer" interest bill; (iii) symmetric entries of €646 million in respect of the Sinking Fund in March 2012 (recorded as current spending, and capital receipts) are taken out; (iv) the IBRC promissory note payment of €3.06 billion that was settled through bond issuance is included in non-voted capital expenditure for 2012; (v) a €110 million exchequer-improving recoupment of a Social Insurance Fund advance is excluded from 2011 net voted current spending; and (vi) the ILP payment of €1.3 billion is excluded from 2012 non-voted capital spending.

14. **Reductions in public service employment have exceeded targets while protecting services, and continued progress in reducing the paybill is needed.** At end-March 2012, the public service was about 1 percent smaller than the end-2012 target of 294,000, and 9 percent below the end-2008 peak.[11] To ensure that these significant personnel reductions do not adversely impact frontline services (e.g. health, education, welfare, public safety) as well as the state's revenue collection capacity, the authorities are adopting a more flexible approach to recruitment, especially where redeployments cannot offer a satisfactory solution (MEFP ¶14). The framework of the Public Service (Croke Park) Agreement (2010–14) is enabling important reforms in relation to over-time, sick pay and allowances (MEFP ¶15).[12] Continued substantial progress on these fronts is needed to ensure an adequate and durable reduction in the still-high public service paybill.

15. **Preparations for Budget 2013 are underway.** An updated Medium-Term Fiscal Statement will be published in October, setting out the consolidation amounts and composition needed to credibly deliver a general government deficit below 3 percent of GDP by 2015 (MEFP ¶16). The authorities are analyzing a range of strategic reform options to

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[11] See Public Service Agreement 2010-2014, Second Progress Report.

[12] For example, the Labor Court recently supported government proposals to (i) halve the sick leave entitlement in the public sector from seven days in 1 year to seven days in 2 years – delivering greater alignment with private sector practice and (ii) restrict eligibility to "critical" illness leave for exceptional circumstances.

ensure the consolidation is equitable and durable, including the introduction of a value-based property tax, which will be included in draft legislation at the time of Budget 2013 (MEFP ¶17). Staff encouraged the authorities to fully specify the measures underpinning the medium-term consolidation at the time of Budget 2013 in order to reduce household and business uncertainty and to support market confidence in the consolidation path.

16. **A Fiscal Responsibility Bill to enshrine major fiscal framework reforms has been published and budgetary transparency and reporting is being further enhanced**.[13] The Bill includes two EU fiscal rules, a structural deficit ceiling and a debt ratio reduction rule. It also gives statutory basis to the already-operational Irish Fiscal Advisory Council, guarantees its annual budget, and provides parliamentary safeguards in relation to Council member contract terminations.[14] The authorities are planning to provide a statutory basis for the multi-annual nominal expenditure ceilings by amending other legislation (MEFP ¶18). The authorities are developing a supplementary more analytical format for regular exchequer reporting, and will likely publish intra-year profiles for all major revenue and expenditure items and the overall exchequer balance next year. The authorities are also consolidating responsibilities for general government debt reporting at CSO and refining their methodology for debt forecasting.

C. Growth and Structural Reforms

17. **The authorities welcomed the decision by European leaders to increase the capacity of the EIB to address Europe's growth and investment challenges**. They will use EIB support together with other sources of funding to supplement Exchequer capital investments in a range of sectors including education, transport, and healthcare (MEFP ¶19). These projects will be implemented over a number of years, and with the ongoing budgetary costs peaking below 0.1 percent of GDP, the effect on fiscal consolidation needs and debt sustainability is manageable. Together with reinvesting half of privatization proceeds, this provides about 1½ percent of GDP in capital expenditure in the next few years.[15]

18. **Further steps are being taken to tackle the unacceptably high unemployment rate.** Under the Pathways to Work labor activation strategy, services for the unemployed are being progressively integrated, with pilot programs underway in four locations to be expanded to an additional 10 sites by year end. Resource and training needs of employment centers are being examined by end September, as is the engagement of private sector firms in the provision of activation services (MEFP ¶20). To reduce disincentives to work, the authorities will replace the rental assistance for those with long-term housing needs with a new Housing Assistance Payment (MEFP ¶21).

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[13] See http://www.oireachtas.ie/viewdoc.asp?fn=/documents/bills28/bills/2012/6612/b6612d.pdf.

[14] The mandate of the IFAC is set out in Box 5 of Ireland: Third Review Under the Extended Arrangement.

[15] See Government Infrastructure Stimulus.

III. Program Modalities

19. **Program monitoring until June 2012 has been updated** (MEFP Tables 1–3):

- Quantitative performance criteria are proposed for end-December 2012. The performance criterion for the Exchequer primary balance is unchanged for end-September 2012, while the previously set end-December 2012 indicative target has been amended to take into account a capital contribution for ESM and converted into a performance criterion. Indicative targets for net central government debt are raised to reflect the payment for Irish Life to complete PTSB's recapitalization. An end-June 2013 indicative target for the Exchequer primary balance is also proposed as well as an indicative target for net central government debt for end-June 2013.

- Structural benchmarks for end-September 2012 are unchanged. Structural benchmarks for 2013 will be identified as appropriate during the eighth review.

20. **Program financing remains adequate for the remainder of 2012 given the recent success in accessing bond markets**. Benefitting from the euro area leaders June 29 statement, the authorities successfully tapped markets in July by issuing €0.5 billion in Treasury bills on July 5, and €4.2 billion in bonds on July 26. Bonds were issued at 5-year and 8-year tenors, with an average yield of just under 6 percent, and where the bulk of this issue was taken up by foreign investors. In addition, a €1 billion switch of two bond issues was undertaken to extend maturities. Further Treasury bill issues are planned for the remainder of 2012, together with the issuance of amortizing bonds targeted at pension funds.[16] Overall market funding, together with rollovers of commercial paper and retail debt issuance, is expected to be around €8 billion over 2012 as a whole (excluding debt issued to IBRC in relation to the March 2012 promissory note payment).

21. **Maintaining market access is crucial for financing in 2013, but subject to risk**. A cash balance of about €18 billion is projected for end 2012, providing a cushion ahead of large debt service payments in the second quarter of 2013, which include a €5.6 billion bond redemption and, under current arrangements, a €3.1 billion payment on promissory notes, and potentially a further €3.1 billion when IBRC's repurchase agreement with the BoI matures.[17] The financing plan for the remainder of 2013 aims at maintaining full and regular market access to finance exchequer cash needs, with about €4½ billion required to ensure an adequate cash position at end 2013, although additional market funding could be appropriate in order to further prefund a €7.6 billion redemption due in early 2014. Although the assumptions on market access have been lowered, they remain dependent on favorable market conditions.

[16] See NTMA Launches Information Memorandum on Irish Amortising Bonds.

[17] This repurchase agreement arose in relation to financing the promissory note payment due at end March 2012 with the issuance of a long-term government security to IBRC.

22. **Financing assurances remain in place, bolstered by support from European partners**. Financing has been identified for the 12 months ahead, but significant risks to financing persist considering Ireland's high debt burden, the close sovereign-banking linkages following the deep banking crisis, the uncertainties about medium-term economic growth prospects owing to both domestic and external factors, and the continuing crisis in the euro area. In that regard, the European commitments from July 2011 and October 2011 to continue providing support to all countries under programs until they have regained market access, provided they fully implement those programs, provide assurance. Additional comfort can be drawn from the June 29 summit statement affirming the imperative to break the vicious circle between banks and sovereigns, and to examine the situation of the Irish financial sector with the view of further improving the sustainability of the well-performing adjustment program. However, there are risks if market expectations for results from the latter commitment were to be disappointed.

23. **The exceptional access criteria continue to be met, albeit subject to risks**:

- Under the baseline macroeconomic framework, debt sustainability is expected to be maintained over the medium term, although subject to significant risks if growth does not strengthen or if further contingent liabilities materialize. As debt sustainability is not assured with high probability, the program relies on the exemption afforded to cases posing systemic international spillover risks given elevated euro area fragility.

- In view of the June 29 commitment by euro area leaders to strengthen the sustainability of Ireland's program, there are adequate prospects to retain and expand access to private capital markets before Fund repurchases begin in July 2015. Nonetheless, risks from stress in sovereign debt markets in the euro area remain high. Progress toward timely approval of the stronger European support would help ensure that the exceptional access criteria continue to be fulfilled.

- More broadly, Ireland's policy program is sound and adjustment is being delivered, providing strong prospects for program success. These would be improved by more benign market conditions and more effective policy action at the European level.

IV. Staff Appraisal

24. **Half way through the extended arrangement, the Irish authorities maintain very strong ownership and implementation of their adjustment program.** All performance criteria and indicative targets for end June were met, two structural benchmarks were observed, and financial sector, fiscal and structural reforms have proceeded as expected. Despite the broadening distress within the euro area, Irish bond spreads have narrowed over the past quarter, reflecting confidence in the authorities' program and optimism following the euro area summit of June 28–29. Nonetheless, the economic recovery is tentative and unemployment unacceptably high.

25. **Putting the financial sector into a position to support the recovery through sound lending will require continuing broad and intensive work.** A return to profitability is needed for lending to be sustainable, including through implementation of banks' restructuring plans to reduce operational costs, and through weaning banks off the costly ELG scheme in an orderly manner that protects their funding.

26. **Advances in developing banks' strategy for dealing with mortgage arrears should move increasingly to the implementation phase**. The CBI's plans for close monitoring of banks' progress are welcome and similar frameworks should be promptly established for distressed credit to SMEs. Conservative valuation and provisioning for loan modifications is needed to support the effectiveness of the restructuring process in strengthening market confidence in bank balance sheets. The personal insolvency bill will facilitate addressing debt distress while preserving debt service discipline. Operational issues such as determining a reasonable standard of living and the licensing and supervision of personal insolvency practitioners should be addressed in a timely manner.

27. **Deepening the credibility of Ireland's fiscal consolidation can help weather macroeconomic shocks.** Consistent sound budget implementation continues in 2012, and the effectiveness of measures to contain health expenditure overruns should be ensured. Yet significant further consolidation is necessary to durably place public debt on a downward trajectory. The fiscal responsibility bill, plans to provide a statutory basis for multi-annual expenditure ceilings, further enhancements of budgetary transparency and reporting, and the coming update of the Medium-Term Fiscal Statement together contribute to the credibility of fiscal consolidation plan. Budget 2013 can reinforce this framework through a focus on high quality measures that are durable and equitable, including a value-based property tax, especially by specifying most of the fiscal measures for 2013-15. Should the growth outlook deteriorate further, any significant additional fiscal adjustment need should be spread over 2014–15 to avoid stifling the still nascent recovery, while still respecting the medium-term fiscal anchor of a 3 percent of GDP general government deficit in 2015.

28. **Timely approval of a further strengthening of European support is needed to put the program on a clear path to successful completion.** In the wake of the June 29 euro area leaders' statement, in July the Irish authorities deftly seized the opportunity to generate almost €6 billion in financing and reductions in near-term financing needs. This experience signals that markets have confidence in Ireland's implementation of strong policies, so that improving debt sustainability and breaking the vicious circle between the banks and the sovereign, can facilitate Ireland retaining durable access to market funding. Timely commitment to such a strengthening of European support, especially ESM investments in the equity of Irish banks, therefore offers real prospects for Ireland to exit its reliance on official financing, which would be a positive breakthrough in the euro area crisis.

29. **Staff supports the authorities' request for completion of the Seventh Review**.

Table 1. Ireland: General Government Financing Requirements and Sources, 2008–13

(In billions of euros)

					Proj.	
	2008	2009	2010	2011	2012	2013
Gross borrowing need	**15.9**	**63.4**	**71.4**	**45.3**	**27.5**	**22.5**
Exchequer cash deficit 1/	12.7	24.6	18.7	19.1	17.1	14.5
Amortization	3.1	27.7	17.3	9.7	8.8	7.9
Medium-and long-term	0.1	5.1	1.2	4.8	5.9	5.6
Short-term 2/	3.0	22.6	16.2	4.9	2.9	2.3
Official creditors	0.0	0.0	0.0	0.0	0.0	0.0
European Union	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0
Bank recapitalization	0.0	11.0	35.3	16.5	1.6	0.0
Gross financing sources 3/	**15.9**	**63.4**	**71.4**	**10.8**	**5.8**	**11.1**
Market financing (incl. retail) 4/	34.9	53.3	23.2	1.4	8.1	6.6
Promissory notes	0.0	0.0	30.9	0.0	0.0	0.0
Bond placement for Promissory notes 5/				…	3.5	…
Cash drawdowns	-19.0	10.0	17.3	9.4	-5.2	4.5
Financing gap	**0.0**	**0.0**	**0.0**	**34.5**	**21.7**	**11.3**
EFSM/EFSF	0.0	0.0	0.0	21.5	12.3	6.4
Bilateral EU	0.0	0.0	0.0	0.5	2.9	1.5
IMF	0.0	0.0	0.0	12.6	6.5	3.5
Memorandum items						
Exchequer cash balance 6/	22.0	21.8	12.3	12.9	18.1	13.6
General government debt 7/	79.6	104.6	144.2	169.3	190.4	197.9
Official creditors	0.0	0.0	0.0	34.5	56.0	67.4
European Union	0.0	0.0	0.0	21.9	37.1	44.9
IMF	0.0	0.0	0.0	12.6	18.9	22.5
Other	79.6	104.6	144.2	134.8	134.4	130.5
Treasury bills, bonds and retail	72.0	96.3	110.4	101.6	104.3	103.0
Promissory notes	0.0	0.0	30.9	28.3	25.3	22.7
Other	7.6	8.4	3.0	4.8	4.8	4.8
General government debt (in percent of GDP) 7/	44.5	64.9	92.2	106.5	117.7	119.3
Official creditors	0.0	0.0	0.0	21.7	34.6	40.6
European Union	0.0	0.0	0.0	13.8	22.9	27.1
IMF	0.0	0.0	0.0	7.9	11.7	13.6
Other	44.5	64.9	92.2	84.8	83.1	78.7
Treasury bills, bonds and retail	40.2	59.7	70.5	63.9	64.5	62.1
Promissory notes	0.0	0.0	19.7	17.8	15.6	13.7
Other	4.3	5.2	1.9	3.0	3.0	2.9

Sources: Department of Finance; National Treasury Management Agency; and IMF staff estimates.

1/ Includes allowance for amortization of Promissory notes and contingency for collateral on hedging transactior

2/ Gross amortization of Treasury bills, Exchequer notes, and commercial paper.

3/ Includes stock-flow adjustment arising from the March 2012 payment of Promissory notes.

4/ Gross issuance including rollovers.

5/ Placement of a bond for the March 2012 payment of Promissory notes to IBRC.

6/ Includes buffer from financing contingency.

7/ Includes local debt, other national debt, and other general government debt on consolidated level.

Table 2. Ireland: Schedule of Reviews and Purchases 1/

Review	Availability Date	Action	Purchase	
			SDRs	Percent of quota
	December 16, 2010	Board approval of arrangement	5,012,425,200	399
First and Second Reviews	May 16, 2011	Observance of end-March 2011 performance criteria, completion of First and Second Reviews	1,410,000,000	112
Third Review	August 15, 2011	Observance of end-June 2011 performance criteria, completion of Third Review	1,319,000,000	105
Fourth Review	December 14, 2011	Observance of end-September 2011 performance criteria, completion of Fourth Review	3,309,000,000	263
Fifth Review	February 15, 2012	Observance of end-December 2011 performance criteria, completion of Fifth Review	2,786,000,000	222
Sixth Review	June 13, 2012	Observance of end-March 2012 performance criteria, completion of Sixth Review	1,191,000,000	95
Seventh Review	September 15, 2012	Observance of end-June 2012 performance criteria, completion of Seventh Review	758,000,000	60
Eight Review	December 15, 2012	Observance of end-September 2012 performance criteria, completion of Eight Review	758,000,000	60
Ninth Review	March 15, 2013	Observance of end-December 2012 performance criteria, completion of Ninth Review	831,000,000	66
Tenth Review	June 15, 2013	Observance of end-March 2013 performance criteria, completion of Tenth Review	831,000,000	66
Eleventh Review	September 15, 2013	Observance of end-June 2013 performance criteria, completion of Eleventh Review	681,000,000	54
Twelth Review	November 15, 2013	Observance of end-September 2013 performance criteria, completion of Twelth Review	579,374,800	46
Total			19,465,800,000	1,548

Source: IMF staff estimates.

1/ Incorporates proposed rephasing of the fifth, seventh and eighth purchase at the Fourth Review.

Table 3. Ireland. Indicators of Fund Credit, 2010–24 1/
(In millions of SDR)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Fund credit															
Disbursement	-	11,050	5,493	2,922	-	-	-	-	-	-	-	-	-	-	-
Stock 2/	-	11,050	16,543	19,466	19,466	18,931	16,757	13,862	10,617	7,373	4,129	1,420	349	-	-
Obligations	-	109	211	483	657	1,221	2,812	3,435	3,659	3,525	3,391	2,749	1,083	351	0
Repurchase	-	-	-	-	-	535	2,173	2,896	3,244	3,244	3,244	2,709	1,071	349	-
Charges	-	109	211	483	657	686	639	539	415	281	147	40	12	3	0
Stock of Fund credit															
In percent of quota	-	879	1,315	1,548	1,548	1,505	1,332	1,102	844	586	328	113	28	-	-
In percent of GDP	-	7.9	12.2	14.2	13.7	12.8	10.8	8.6	6.3	4.2	2.3	0.8	0.2	-	-
In percent of exports of goods and services	-	7.5	11.4	12.9	12.3	11.4	9.5	7.5	5.5	3.7	2.0	0.7	0.2	-	-
Obligations to the Fund															
In percent of quota	-	9	17	38	52	97	224	273	291	280	270	219	86	28	0
In percent of GDP	-	0.1	0.2	0.4	0.5	0.8	1.8	2.1	2.2	2.0	1.9	1.5	0.5	0.2	0
In percent of exports of goods and services	-	0.1	0.1	0.3	0.4	0.7	1.6	1.9	1.9	1.8	1.6	1.3	0.5	0.1	0

Source: IMF staff estimates.

1/ Calculated based on existing credit and full disbursements of the prospective available amounts under the extended arrangement under the Extended Fund Facility.
2/ End of period.

Attachment I. Letter of Intent

Dublin, 20 August 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde:

1. The Irish Government remains firmly committed to the programme, as illustrated by our continued strong performance in implementing the agreed policy frameworks and measures. Once more, for the seventh quarterly review, all programme targets have been met. Recently released data shows that Ireland had stronger growth than expected in 2011. We continue to move towards the goal of returning to sustainable funding in the international capital markets during 2013, and took a further step with the successful Treasury Bill auction and the new issuance of €4.2 billion in long-term bonds carried out by the NTMA in July. In line with our growth focus, we have recently launched a multi-year (2012-2018) stimulus package worth €2.25 billion. This will be used for investment in public infrastructure projects, and also supporting employment enhancing and commercial projects and augmenting existing Exchequer investment plans. Separately, we welcome the Heads of State or Government statement from the Euro Area summit that it is imperative to break the vicious circle between banks and sovereigns and that the Eurogroup will examine the situation of the Irish financial sector with the view of further improving the sustainability of our adjustment Programme.

2. Once again, for the seventh review, we have met our commitments under the EU/IMF supported programme in terms of policy reforms as well as quantitative targets (MEFP Tables 1 and 2):

- The performance criterion for end-June 2012 on the cumulative Exchequer primary balance was met with a margin, as was the indicative target on the stock of Central Government net debt. The continuous performance criterion on non-accumulation of external payment arrears has also been met.

- We submitted on 29 June an updated PTSB restructuring plan to the EC, ECB and IMF (end June structural benchmark). The plan details the actions needed to ensure the viability of PTSB’s core business, recognising that this requires the timely legal and financial separation of the asset management unit.

- We published on July 18 the Fiscal Responsibility Bill (end September structural benchmark). In addition ton implementing the European Fiscal Stability Treaty, the bill provides a legal framework for the Fiscal Advisory Council that ensures its independence.

3. In the attached Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives laid out in our programme supported by the Extended Arrangement and by the EU. Based on the strength of these policies, and in light of our performance under the programme and our continued commitment, we request the completion of the seventh review under the Extended Arrangement. We also request that the seventh purchase in an amount equivalent to SDR 758 million becomes available at the time of completion of the review.

4. Looking forward, the financing need outlook until 2013 is broadly in line with expectations at the sixth programme review. We resumed market issuance of Treasury bills in July 2012 and envision regaining sustainable bond markets access in 2013. We have further developed potential domestic financing sources and have maintained a large cash buffer that provides additional comfort. We propose to leave the phasing unchanged with a total purchasing amount equivalent to SDR 1,516 million over the remainder of 2012 (including this review), and SDR 2,922 million in 2013.

5. We propose that quantitative performance criteria under the arrangement be established for 31 December 2012, as set out in the attached MEFP. The Technical Memorandum of Understanding (TMU) explains how programme targets are measured.

6. We are confident that the policies set forth in the Letters of Intent of 3 December 2010, and subsequent letters as well as this letter are adequate to achieve the objectives of our Programme. At the same time, while we do not envisage that revisions will be needed, we stand ready to take any corrective actions that may become appropriate if circumstances change. As is standard under Fund-supported programmes, we will consult with the Fund on the adoption of such actions in advance in the event that revision of the policies contained in this Letter and the attached Memorandum becomes necessary, and at the same time consult with the European Commission and the ECB.

7. This letter is being copied to Messrs. Draghi, Juncker, Rehn, and Shiarly.

Sincerely,

/s/	/s/
Michael Noonan, T.D. Minister for Finance	Patrick Honohan Governor of the Central Bank of Ireland

Attachment II. Memorandum of Economic and Financial Policies

A. Recent Economic Developments and Outlook

1. **Ireland's economy returned to growth but continues to face headwinds from slowing external activity**. Real GDP grew by 1.4 per cent in 2011 on the back of a solid export performance. As a result, the current account on the balance of payments recorded a second consecutive surplus, 1.4 per cent of GNP. Domestic demand continues to decline—albeit at a slowing pace—owing to continuing household balance sheet repair and the still weak labour market. Although private sector employment grew modestly at 1.2 percent y/y, the rate of unemployment rose to 14.8 percent in the first quarter. Driven by high energy costs and administered price increases, the annual rate of HICP inflation averaged 1.8 percent in the first six months of the year. Growth prospects for the remainder of 2012 and into 2013 remain modest, with weak trading partner growth dampening export demand even as further competitiveness improvements cushion this effect. Yields on Irish sovereign bonds have fallen sharply on foot of the 28–29 June 2012 euro area Summit, and Ireland successfully returned to the Treasury Bill market.

2. **We welcome the decisions taken on 28–29 June by euro area authorities to examine the situation of the Irish financial sector with the view of further improving the sustainability of our well-performing adjustment programme**. The euro area Summit also recognised the imperative to break the vicious circle between banks and sovereigns that burdens the economic recovery in Ireland. We will work closely with EC/ECB/IMF partners to develop a plan to meet these stated objectives, for consideration by the Eurogroup. Key financial sector issues to be addressed include the financing of the carve out of legacy assets remaining in banks, especially PTSB, and the promissory notes held by IBRC. Meeting these objectives would strengthen confidence and give impetus to Ireland's economic recovery, thereby ensuring bond market access is regained in a durable manner, averting the need to continue to rely on official financial support.

B. Financial Sector Policies

3. **We submitted to the European Commission a restructuring plan for PTSB at end-June, and we are working with our external programme partners towards the comprehensive strategy needed to ensure its viability**. Under the plan, PTSB is reorganising into three distinct units: (i) the core retail bank; (ii) an asset management unit to house certain legacy assets; and (iii) the U.K. residential mortgage operation, which will be divested as soon as conditions permit. Separate management accounts for each unit will be established by end-September, at which time quarterly performance benchmarks will be, for each unit, established by PTSB. The plan recognises that viability of the core retail bank requires the timely legal and financial separation of the asset management unit, but such a separation hinges on further sector-wide restructuring measures, the nature, timetable, and mechanics of which are yet to be specified. Accordingly, we are exploring options in the context of the decision of the euro area member states to examine the situation of the Irish financial sector with the view of further improving the sustainability of our well-performing

adjustment programme. In the interim, work on financial and operational restructuring of PTSB will continue.

4. **The CBI is streamlining the deleveraging framework to minimise risks to lending and deposit pricing distortions while introducing advanced monitoring of liquidity**. Deleveraging has progressed well and will henceforth be assessed based on the existing nominal targets for disposal and run-offs of non-core assets in line with the 2011 Financial Measures Programme while avoiding fire sales of assets. To prepare banks for the scheduled implementation of Basel III liquidity ratios under CRD IV, we will supervise developments in banks' net stable funding ratio with an emphasis on elements under banks' direct control.

5. **We will continue to phase out the ELG Scheme in an orderly manner**. This important measure helped preserve financial stability through a tumultuous period but could be phased out gradually as the stability of the banking system becomes increasingly assured, which would also enhance bank profitability. An inter-agency working group led by the Department of Finance will by end-2012 develop a roadmap for weaning the banking system off the scheme while preserving financial stability and respecting fiscal deficit targets.

6. **In parallel, we are actively working towards another rigorous stress test**. In preparation for the stress test, and in order to further refine future loan loss forecast estimates the CBI is developing credit data and documentation remediation actions for the PCAR banks as part of their risk mitigation plans. The risk mitigation plans will be updated by end September 2012. We will also revise collateral valuation guidelines by end-December 2012. In relation to mortgage and SME loan arrears, and consistent with our recently implemented Guidelines on Provisioning, we will continue to ensure robust provisioning following the application of loan modification options. In particular, where loans arrears are subject to capitalisation we will require that the loan is not re-set to performing status and that the provisions are held against this part of the portfolio until such time as an appropriate repayment track record (i.e., a minimum of 6 months) has been achieved.

7. **We continue to enhance our supervisory framework**. Supervisory reviews will continue to be conducted on an annual basis for the PCAR banks in line with PRISM, our risk based supervisory engagement model. As part of our ongoing supervision, the CBI is also enhancing its approach to Credit Risk, Risk Weighted Asset (RWA) supervision including conducting annual model performance reviews, assessing RWA calculation and reviewing banks' approaches to RWA forecasting and stress testing in advance of PCAR 2013. Supervisory powers will be further strengthened with the enactment of the Supervision and Enforcement Bill, which will be enhanced at the Committee stage.

8. **We are pressing forward in restoring the viability and solvency of our credit union sector**. We are preparing regulations for the Resolution Fund levy to be adopted by end-September (structural benchmark). Following consultations with key stakeholders, we published the general scheme of a bill strengthening the regulatory framework for credit

unions in late June. It provides for the establishment of a Restructuring Board with strong representation from the sector; administrative preparations to that end are underway. The Board will work with credit unions to deliver agreements on restructuring proposals, which will be subject to CBI regulatory approval and will assist in their implementation. The CBI will engage its resolution powers as needed, drawing on Resolution Fund resources if required.

9. **By year-end, banks will roll out options to address loan arrears and unsustainable debts under the Mortgage Arrears Resolution Strategy (MARS)**. The CBI has reviewed loan modification options for residential mortgages and has given feedback to banks. As part of the MARS process, the CBI will communicate to individual banks to ensure appropriately conservative regulatory and accounting treatment of loan modification options is applied. Banks are preparing to roll out a complete set of loan modification options by year-end, with pilots for a number of options set out in the recommendations of the Inter-Departmental Mortgage Arrears Working Group. To provide a free consultation for distressed borrowers, we will augment the Mortgage Advisory Services by end-September with independent financial advisers, funded by banks.

10. **Implementation of banks' loan modification strategies will be subject to intensive bilateral engagement with supervisors to monitor progress**. The CBI is developing a set of key performance indicators to track the banks' implementation of mortgage arrears resolution strategies, which the CBI plans to collect, analyse and publish on a quarterly basis starting at end-December 2012. A set of key performance indicators for SMEs will also be developed by end-December 2012.

11. **We will establish a new insolvency framework that facilitates the resolution of unsustainable personal debt**. We introduced the Personal Insolvency Bill to the Oireachtas in June to establish a new debt settlement regime in order to address personal financial distress, including on residential mortgages. We recognise the importance of protecting creditors' rights and debt-servicing discipline by subjecting the primary new debt settlement processes – the Debt Settlement Arrangement (DSA) and the Personal Insolvency Arrangement (PIA) to a creditor vote by a qualified majority and by requiring court approval, while safeguarding reasonable standards of living for the debtors. The Bill will also modernise the Bankruptcy Act 1988 by shortening the automatic discharge period in line with evolving international practice. We continue to consider further refinements of the Bill, such as pertaining to the valuation of assets, ahead of its enactment.

12. **In parallel, we are advancing preparations to implement the new personal insolvency framework**. We expect soon to appoint a Director-Designate of the Insolvency Service to oversee the establishment of the Service and contribute to the fine-tuning of the law. A significant number of legal and operational issues require to be addressed in finalising the Bill during the Autumn session commencing in September as to permit the Insolvency Service to become operational in January 2013 or very shortly thereafter. These issues include the licensing and supervision of personal insolvency practitioners and the evolution

of reasonable household expenses and necessary trade or business expenses guidelines for debtors. Such guidelines to be prepared by end-year will be crucial for the approved intermediaries in the operation of the Debt Relief Notice process and, will also be of use to personal insolvency practitioners in the negotiation of a DSA or PIA. We will also review the measures necessary for implementation of the framework.

C. Fiscal Policies

13. **We are on track to deliver a budget deficit within the 8.6 percent of GDP target for 2012**. Implementation of Budget 2012 has safely met the end-June performance criterion on the exchequer primary balance and the indicative target on net debt, further extending our track record of consistently achieving the programme's fiscal targets. Despite the weakening external environment and higher unemployment, strong collection efforts have brought in revenues ahead of profile. At the same time, we are alert to pressures in health and social protection spending, and will continue to manage expenditure to remain within budget.

14. **We continue to make the public service leaner and more effective**. As noted in the Second Implementation Report of the Public Service ("Croke Park") Agreement, the personnel reduction targets for 2012 have been surpassed, with the public workforce now 9 percent smaller than the peak at end-2008. Re-deployments of personnel are gathering pace, and we expect to be able to lock in some of the additional reductions in personnel numbers without compromising critical service delivery. However, some recruitment flexibility may be needed in situations where retirements have created particular skills shortages, or where public service needs have risen.

15. **We are monitoring the public service paybill, including non-core pay elements**. In this regard, we are reining in the cost of overtime through enhanced workforce planning and management, and have completed comprehensive reviews of sick pay and allowance policies as the basis for further cost-saving reforms.

16. **We have begun preparations for Budget 2013 with the aim of further underpinning the credibility of our medium-term fiscal goals**. We are currently finalising a new Employment Control Framework, which will fix departmental resource allocations for next year. In mid-October, we will publish an updated Medium-Term Fiscal Statement setting out our macroeconomic and fiscal projections out to 2015, and the underlying consolidation amounts and composition needed to credibly deliver a consolidation path in line with the Excessive Deficit Procedure, bringing the general government deficit below 3 percent of GDP by 2015.

17. **To ensure that this consolidation protects growth and is equitable and durable, we are analysing a range of strategic reform options**. On the spending side, we are seeking to better target our social supports and subsidies, attenuate work disincentives arising from the structure and interaction of social assistance payments, and contain ageing-related spending pressures. On the tax side, we are looking to broaden the base and develop

additional stable revenue sources, including through the introduction of a value-based property tax. Core features of its design and collection will be included in draft legislation at the time of Budget 2013.

18. **We are strengthening our national fiscal framework in line with EU rules and further enhancing budgetary transparency and reporting**. The approval of the end-May referendum cleared the way for parliamentary ratification of the Treaty on Stability, Coordination and Governance. We have published the draft legislation to implement the Treaty, which will enshrine the independence of the already-established Irish Fiscal Advisory Council and ensure its adequate resourcing. This legislation will also include the automatic correction mechanism that would apply in cases of deviations from fiscal targets. Furthermore, we will publish legislation to give statutory basis to the already-operational multi-annual expenditure limits by end September. We have begun preparatory work to enhance our regular fiscal reporting on an exchequer and general government basis. Taking into account the recommendations of the External Review of the Compilation of General Government Debt Statistics, we will consolidate the appropriate responsibilities for debt reporting at the CSO, while also refining the methodology for general government debt forecasting in the Department of Finance.

D. Growth and Structural Reforms

19. **Generating growth and jobs on a sustainable basis remains a critical priority**. We welcome the decision by European leaders to increase the capacity of the European Investment Bank (EIB) to address Europe's growth and investment challenges. We plan to avail of this opportunity to supplement our exchequer capital programme through PPP projects with non-Exchequer sources of funding including EIB. The projects will be in a range of sectors including education, transport and health care. Our plans for the disposal of state assets in the energy generation, aviation, and forestry sectors are advancing as envisioned, with no regulatory or legislative obstacles to the commencement of the sales process in 2013 having been identified. We will use at least half of these proceeds to reduce public debt in due course, with the details on timing and implementation to be agreed, and, once realised, the remainder will be reinvested in job-rich projects of a commercial nature consistent with our fiscal targets.

20. **We are taking further steps to tackle the unacceptably high unemployment rate**. As envisaged under our *Pathways to Work* activation strategy, we are progressively rolling out an integrated services system for the unemployed, where the profiling of clients, development of individual career progress plans, and granting of benefits are carried out by case workers. Pilot programs are currently underway in four locations, with a plan to implement them at ten further sites across the country by year-end. To ensure an adequate level of services, we are currently examining resource levels and training needs of the new integrated employment centres. We are also considering the engagement of private sector firms in the provision of activation services, especially for the long-term unemployed. We will prepare an update on both of these issues by end-September 2012. We are also

intensifying our engagement with employers, aiming to increase the notification of vacancies to the employment service and to encourage recruitment of the unemployed from the Live Register.

21. **As we move into more-active engagement with the unemployed, we are reforming the structure of welfare payments to reduce disincentives to work**. In this context, we will transfer responsibility for the provision of rental assistance for persons with a long-term housing need from Department of Social Protection to housing authorities using a new Housing Assistance Payment. A commencement date for the new arrangements of 1 January 2013 has been agreed subject to further consideration of legal and administrative issues by Government. This initiative will help reduce net replacement rates for some groups of long-term unemployed. The DECLG and DSP will also report on the housing assistance reform, in particular on the introduction of the new Housing Assistance Payment by end September 2012.

E. Programme Financing and Monitoring

22. **The programme remains adequately financed**. Building on our strong record of programme performance, we have returned to the Treasury Bill market for the first time since September 2010, raising €500 million through Treasury Bill issuance and €4.2 billion by selling long-term bonds on favourable terms from a broad investor base in July. We are maintaining close contacts with a wide range of market participants with the aim of regaining sustainable bond market access in 2013 and are examining alternative funding sources, including the sale of amortising bonds to pension funds. In view of the external risks to our financing strategy, we continue to maintain a prudent cash buffer. The euro area leaders' commitment to meet financing needs until market access is regained, providing that the programme remains on track, offers a further valuable backstop in the event that financial market conditions in the euro area were to deteriorate.

23. **Implementation of the policies under the programme will continue to be monitored through quarterly and continuous performance criteria, indicative targets, structural benchmarks, and quarterly programme reviews, as envisaged in our Letters of Intent since the inception of the arrangement on 3 December 2010 along with this letter**. The programme also continues to be in compliance with requirements under the Memorandum of Understanding on Specific Policy Conditionality. The attached Technical Memorandum of Understanding defines the quantitative performance criteria and indicative targets under the programme. The Government's targets for the exchequer primary balance are monitored through quarterly performance criteria and net central government debt is an indicative target (Table 2). As is standard in EU/IMF arrangements, there is a continuous performance criterion on the non-accumulation of external payment arrears. Progress on implementing structural reforms is monitored through structural benchmarks (Tables 1 and 3).

24. **We authorise the IMF and the European Commission to publish the Letter of Intent and its attachments and the related staff report**.

Table 1. Programme Monitoring

Measure	Date	Status
Quantitative Performance Criteria		
Cumulative exchequer primary balance	End-June 2012	Observed
Indicative Target		
Ceiling on the stock of central government net debt	End-June 2012	Observed
Continuous Performance Criteria		
Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government	Continuous	Observed
Structural Benchmarks		
Define the criteria to run stringent stress tests scenarios.	End-December 2010	Observed
Agree on terms of reference for the due diligence of bank assets by internationally recognised consulting firms.	End-December 2010	Observed
The Central Bank will direct the recapitalisation of the principal banks (AIB, BoI and EBS) to achieve a capital ratio of 12 percent core tier 1.	End-February 2011	Not observed 1/
Submit to Dáil Éireann the draft legislation on a special resolution regime.	End-February 2011	Observed 2/
The Central Bank to complete the assessment of the banks' restructuring plans.	End-March 2011	Observed
Complete the diagnostic evaluation of banks' assets.	End-March 2011	Observed
Complete stress tests (PCAR 2011).	End-March 2011	Observed
Complete a full assessment of credit unions' loan portfolios	End-April 2011	Observed
Finalise plans for the recapitalisation of Irish Life and Permanent.	End-May 2011	Observed
Establish a Fiscal Advisory Council.	End-June 2011	Observed
Complete the recapitalisation of Allied Irish Banks, Bank of Ireland, Irish Life and Permanent and EBS Building Society.	End-July 2011	Observed
Submit the Supervision and Enforcement Bill to Oireachtas.	End-July 2011	Observed
Complete the legal merger procedures of Allied Irish Bank and EBS Building Society.	End-September 2011	Observed
Publish a memorandum of understanding governing the relationship of the Department of Finance and the Central Bank in relation to banking sector oversight.	End-October 2011	Observed 3/
The merger of Irish Nationwide Building Society and Anglo-Irish bank.	End-December 2011	Observed
Central Bank to issue guidance to banks for the recognition of accounting losses incurred in their loan book.	End-December 2011	Observed
Finalise a strategy to guide the development of broader legal reforms around personal insolvency, including significant amendments to the Bankruptcy Act 1998 and the creation of a new structured non-judicial debt settlement and enforcement system.	End-December 2011	Observed
Introduce a medium-term expenditure framework with binding multi-annual expenditure ceilings with broad coverage and consistent with the fiscal consolidation targets.	2012 Budget day in early December 2011	Observed
Updated restructuring plan for the PTSB detailing the actions needed to ensure viability of its core businesses.	End – June 2012	Observed
Submit to parliament, as part of the Fiscal Responsibility Bill, a legal framework for the Fiscal Advisory Council ensuring its independence.	End – September 2012	Observed

1/ Central Bank directions were issued within the required timeframe, however completion of the capital injections required was postponed by the Minister for Finance until after the General Election. These directions are now superseded by the Central Bank's PCAR directions of 31 March 2011.
2/ In practice this was submitted to the Seanad as discussed in paragraph 21of the MEFP, as the Dáil was dissolved owing to the elections.
3/ Effective end-October 2011 and posted on November 8, 2011.

Table 2. Ireland: Quantitative Performance Criteria and Indicative Targets
Under the Economic Programme for 2011–13

	30-Sep-11		31-Dec-11		31-Mar-12		30-Jun-12		30-Sep-12	31-Dec-12	31-Mar-13	30-Jun-13
	Target 1/	Outcome	Target 1/	Outcome	Target 1/	Outcome	Target 1/	Outcome	Target	Target	Target	Target
	(In billions of Euros)											
	Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion	Indicative Target	Indicative Target 4/	Indicative Target
1. Cumulative exchequer primary balance 2/	-20.2	-18.3	-22.3	-21.0	-6.9	-5.7	-9.6	-8.7	-10.6	-11.2	-3.6	-7.2
2. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government 3/	0	0	0	0	0	0	0	0	0	0	0	0
	Indicative Target		Indicative Target		Indicative Target		Indicative Target		Indicative Target	Indicative Target	Indicative Target	Indicative Target
3. Ceiling on the stock of central government net debt 1/	115.9	111.7	117.2	115.7	125.0	123.0	130.1	128.2	132.5	136.0	141.7	148.7

1/ Adjusted.
2/ Measured by the exchequer balance excluding interest payments. Cumulative from the start of the relevant calendar year.
3/ Applies on a continuous basis.
4/ For comparability, the 31-Mar-2012 outcomes for the cumulative Exchequer primary balance and the stock of central government net debt include the payment of the IBRC Promissory Note although settlement of this payment took place in early April through the issuing of a Government bond. The indicative 31-Mar-2013 Exchequer primary balance and Central Government net debt targets assume the IBRC Promissory Note payment is executed in April 2013 with a cash payment from the Exchequer.

Table 3. Ireland: Upcoming Structural Benchmarks under the Programme for 2012

Measure	Date	Status
Financial sector policies		
Publish legislation to strengthen the regulatory framework for credit unions, including making legislative provision for effective governance standards and prudential requirements (MEFP Nov. 28, 2011, ¶19).	End-September 2012	Structural benchmark
Approve regulations to establish a charge levied across credit institutions to recoup over time the costs of resolving vulnerable institutions (MEFP Feb. 10, 2012, ¶9).	End-September 2012	Structural benchmark

Attachment III. Technical Memorandum of Understanding

August 20, 2012

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the indicators subject to performance criteria and indicative targets under the arrangement supported by the Extended Fund Facility (EFF). These performance criteria and indicative targets are reported in Table 2 attached to the Memorandum of Economic and Financial Policies (MEFP). This TMU also describes the methods to be used in assessing the programme performance and the information requirements to ensure adequate monitoring of the targets.

2. For programme purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "programme exchange rates", with the exception of the items affecting the government fiscal balances, which will be measured at current exchange rates. The programme exchange rates are those that prevailed on December 30, 2011 as shown on the IMF's website (http://www.imf.org/external/np/fin/data/rms_five.aspx, accessed 19 January 2012), in particular, €1 = 1.2939 U.S. dollar and €1 = 0.842786 SDR.

I. Quantitative Performance Criteria And Indicative Targets

Floor on the Exchequer Primary Balance

3. The Exchequer balance is the traditional domestic budgetary aggregate which measures the net surplus or net deficit position of the Exchequer Account. The Exchequer Account is the single bank account of the Central Fund and is held at the Central Bank of Ireland. The annual audited accounts of the Exchequer Account produced by the Department of Finance are known as the Finance Accounts. An unaudited summary known as the Exchequer Statement is produced at the end of each month. Under the Irish Constitution, all Government receipts are paid in to the Central Fund and all Government expenditure is funded from it, unless provided otherwise by law.[1] The Exchequer balance is the difference between total receipts into, and total expenditure out of, the Exchequer Account. It measures the sum of the current and capital balances. The current balance is defined as current receipts (tax and non-tax revenue) minus current expenditure (voted expenditure and non-voted expenditure charged directly on the Central Fund, including the Sinking Fund). The capital balance is defined as capital receipts (Sinking Fund and other capital receipts) minus capital expenditure (voted and non-voted expenditure). The Sinking Fund provision is a transfer from the current account to the capital account to reduce national debt and has no effect on the overall Exchequer balance.

[1] Receipts of the Central Fund comprise Exchequer tax revenues, non-tax revenues, receipts from the European Union and other capital receipts. Charges on the Central Fund include the expenditure of Government departments and offices, payments related to the servicing of the national debt, payments to the European Union Budget, the salaries, pensions and allowances of the President, judiciary, and Comptroller & Auditor General and the running costs of the Houses of the Oireachtas (Parliament). Extra-budgetary funds (including the National Pensions Reserve Fund), the Social Insurance Fund, semi-state bodies and local governments are not part of the Exchequer system.

4. The performance criteria are set on the Exchequer primary balance (the Exchequer balance excluding net debt interest payments in the service of the National Debt, but including debt issued to IBRC to settle Promissory Note payments).[2]

5. For the purposes of the programme, the floor on the Exchequer primary balance (quantitative performance criterion) will be adjusted downward by payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy. Such payments may include, inter alia, loans to banks, investments in their equity (requited recapitalisation), unrequited recapitalisation, and purchases of troubled assets, which are carried out in line with programme objectives. The floor will be adjusted upward by the amount of proceeds from sales of bank equity held by the government or NPRF that are treated as Exchequer receipts. The floor will also be adjusted downward for Exchequer outlays for the resolution of credit unions, and upward for any return of such outlays to the Exchequer and also for the recoupment of such outlays by the Exchequer from the Resolution Fund. Any other financial operation by Government to support banks, including the issuance of guarantees or provision of liquidity, will be reported to EC, IMF, and ECB staffs.

6. The floor on the Exchequer primary balance (quantitative performance criterion) in each year will be measured cumulatively from the start of that calendar year.

Cumulative Exchequer primary balance	(In billions of Euros)
From January 1, 2012:	
End-September 2012 (performance criterion)	-10.6
End-December 2012 (performance criterion)	-11.2
From January 1, 2013	
End-March 2013 (indicative target)	-3.6[3]
End-June 2013 (indicative target)	-7.2

7. The performance criterion on the Exchequer primary balance (floor) will be adjusted upward (downward) for the full amount of any over-performance (under-performance) in Exchequer tax revenues, pay-related social insurance contributions (PRSI) and national training fund contributions against the current projection which is listed below:[4]

[2] Net debt interest payments are as per the end-month Exchequer Statements.

[3] The indicative Exchequer primary balance and Central Government net debt targets for 2013 assume the IBRC Promissory Note payment is executed in April 2013 with a cash payment from the Exchequer.

[4] Exchequer tax receipts are comprised of income tax (including the universal social charge), value added tax (VAT), corporation tax, excise duties, stamp duties, capital gains tax, capital acquisitions tax and customs duties.

Cumulative Exchequer tax revenue & other receipts (as outlined in 7. above)	(In billions of Euros)
From January 1, 2012:	
End-September 2012 (projection)	30.7
End-December 2012 (projection)	44.1
From January 1, 2013	
End-March 2013 (projection)	10.2
End-June 2013 (projection)	20.9

8. Any policy changes, including in administration and enforcement of taxes, which impact the revenue projection set out in paragraph 7 will lead to a reassessment of the adjustor in the context of program reviews.

Ceiling on the Stock of Central Government Net Debt

9. The stock of net central government debt, for the purposes of the programme, is defined as the National Debt less liquid assets of the National Pensions Reserve Fund (NPRF). The National Debt is defined as the total outstanding amount of principal borrowed by central government and not repaid as of the test date, less liquid assets available for redemption of those liabilities at the same date. These liquid assets comprise the Exchequer cash balances (including cash in the Capital Services Redemption Account), Exchequer deposits with commercial banks and other institutions, and investments in investment grade sovereign bills. For the purposes of the programme, NPRF liquid assets include the asset classes listed above, and also all marketable securities such as equities, government bonds and other listed investments. NPRF shares in domestic Irish banks, as well as the NPRF's non-liquid discretionary portfolio are excluded from the definition of liquid assets.

10. For the purposes of the programme, the ceiling on the central government net debt (indicative target) will be adjusted upward by debt arising from payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy. These payments may include, inter alia, loans to banks, investments in their equity (requited recapitalisation); unrequited recapitalisation; and purchases of troubled assets, which are carried out in line with programme objectives. The ceiling will also be adjusted (i) downward by the amount of proceeds from sales of bank equity held by the government or NPRF that are treated as Exchequer or NPRF receipts; (ii) upward for Exchequer outlays for the resolution of credit unions, and downward for any return of such outlays to the Exchequer and also for the recoupment of such outlays by the Exchequer from the Resolution Fund; (iii) downward by the amount liquidated from the NPRF non-liquid discretionary portfolio; and (iv) downward (upward) by valuation gains (losses) in the NPRF liquid portfolio. The programme exchange rates will apply to all non-Euro denominated debt.

11. The ceiling on the outstanding stock of central government net debt will be adjusted upward (downward) by the amount of any final upward (downward) revision to the stock of end-June 2012 central government net debt.

Central government net debt	(In billions of Euros)
Outstanding stock:	
End-June 2012 (provisional)	128.2
End-September 2012 (indicative target)	132.5
End-December 2012 (indicative target)	136.0
End-March 2013 (indicative target)	141.7
End-June 2013 (indicative target)	148.7

Non-accumulation of External Payments Arrears by Central Government

12. The central government will accumulate no external payments arrears during the programme period. For the purposes of this performance criterion, an external payment arrear will be defined as a payment by the central government on its contracted or guaranteed external debt that has not been made within five business days after falling due, excluding any contractual grace period. The performance criterion will apply on a continuous basis.

13. The stock of external payments arrears of the central government will be calculated based on the schedule of external payments obligations reported by the National Treasury Management Agency.

II. REPORTING REQUIREMENTS

14. Performance criteria under the programme will be monitored using data supplied to the EC, IMF, and ECB staffs. The Irish authorities will transmit promptly any data revisions.

- The Department of Finance will report to the EC, IMF and ECB staff, with a lag of no more than seven days after the test date the following data: the Exchequer primary balance, Exchequer tax revenues, payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy, proceeds from sales of bank equity held by the government or NPRF that are treated as Exchequer receipts, Exchequer outlays for the resolution of credit unions, any return of such outlays to the Exchequer and also for the recoupment of such outlays by the Exchequer from the Resolution Fund.

- The National Treasury Management Agency will provide provisional figures on the outstanding stock of net government debt, including an unaudited analysis of NPRF holdings, with a lag of no more than seven days after the test date. The revised figures will be provided within three months of the test date.

- The National Treasury Management Agency will provide the final stock of the central government system external payments arrears to the EC, IMF and ECB staff, with a lag of not more than seven days after the arrears arise in accordance with the definition of external payments arrears as set forth in paragraph 12 of this memorandum.

The Central Bank of Ireland will provide on a quarterly basis, bank by bank data on the assets of government guaranteed banks, including loans and provisioning by period overdue (90+days and less than 90 days) and category of borrower, 40 working days after the end of each quarter.

Attachment IV. Letter of Intent (European Commission)

Dublin, 20 August 2012

Mr. Mario Draghi
President
European Central Bank
Kaiserstrasse 29
60311 Frankfurt am Main
Germany

Mr. Jean-Claude Juncker
Eurogroup President
Ministère des Finances
3, rue de la Congrégation
L-1352
Luxembourg

Mr. Olli Rehn
Vice-President of the European Commission responsible for Economic and Monetary Affairs and the euro
European Commission
BERL 10/299
B-1049 Brussels
Belgium

Mr Vassos Shiarly
Minister of Finance
Michael Karaoli & Gregori Afxentiou
1439 Nicosia
Cyprus

Dear Messrs Draghi, Juncker, Rehn, and Shiarly

1. The Irish Government remains firmly committed to the programme, as illustrated by our continued strong performance in implementing the agreed policy frameworks and measures. Recently released data shows that Ireland had stronger growth than expected in 2011. We returned to the international capital markets in July 2012 with the NTMA issuing both Treasury Bills and long-term bonds totaling €4.7 bn in new funding. In line with our growth focus, we have recently launched a multi-year (2012-2018) stimulus package worth €2.25 billion. This will be financed through Public-Private Partnerships

(PPPs) with EIB and private sector participation and be used for investment in public infrastructure projects, and also support employment-enhancing and commercial projects and augment existing Exchequer investment plans. The fiscal consolidation path agreed under the Programme will not be affected.

2. The passage of the referendum allowing the ratification of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union has demonstrated Ireland's commitment to prudent policies and consolidation.

3. We welcome the June 29 statement of the Heads of State or Government of the euro area stressing the need to sever the pernicious link between the banks and the sovereigns and mandating the euro group to examine the situation of the Irish financial sector with a view to enhancing the sustainability of our well-performing programme. We are working with staff from the European Commission, the European Central Bank and the International Monetary Fund to present options to the Eurogroup in the next few weeks. In the meantime, we remain committed to maintaining our strong record of programme implementation, beginning with the forthcoming preparations for the 2013 Budget.

4. Once again, for the seventh review, we have met our commitments under the EU/IMF supported programme in terms of policy reforms as well as quantitative targets:

- As regards our fiscal consolidation objectives, the cumulative exchequer balance through end-June 2012 was ahead of the programme profile and the 2012 general government deficit is projected to be at, or below, the 8.6% of GDP programme ceiling.

- We have continued to advance the envisaged structural reforms. In particular, we have agreed on a detailed, time-bound implementation plan for the transfer of water service provision to Irish Water, made provisions for an increase in the staffing of the Competition Authority, and assessed scope for reform of welfare payments, including to reduce any disincentives to take up work. We have also conducted a due diligence on the state assets which we have identified for disposal starting in 2013, and have identified no regulatory or legislative obstacle to bringing the assets closer to the point of sales in the weeks and months ahead. Finally, we have presented to the Oireachtas a revised Industrial Relations (Amendment) Bill in line with the result of public consultations and programme understandings. The bill has been enacted and was commenced on August 1.

- The overarching strengthening, restructuring, and right-sizing of the domestic banking sector and the credit union sector is also progressing according to plans, including for example with the completion of the remaining capitalization of Permanent TSB and of some of the work-streams in the Financial Measures Programme (independent asset quality review, distressed credit operations review, a data integrity validation exercise, and an income recognition and re-aging

project), the submission to the European Commission of a restructuring plan for Permanent TSB, and the publication of the legislation on personal insolvency reform.

5. In the attached sixth update of the Memorandum of Understanding of Specific Economic Policy Conditionality (the MOU), as well as in the Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives of our economic adjustment programme supported by financial assistance from the EU and the IMF. Based on the strength of these policies, and in light of our performance under the programme and our continued commitment, we request the completion of the seventh review and the release of the seventh EFSF/EFSM disbursement of EUR 1 billion.

6. Looking forward, the financing need outlook until 2013 is broadly in line with expectations at the sixth programme review, whereby our larger cash buffer provides additional comfort. We continue to move steadily towards our core goal of regaining sustainable access to the international capital markets during 2013, and have recently returned successfully to the both the Treasury Bill and bond markets with issuance which received ample demand and were favourably priced. As a result, the funding hurdle associated with a large bond redemption in January 2014 has been significantly reduced.

7. We are confident that the policies set forth in the Letters of Intent of 3 December 2010, and subsequent letters as well as this letter are adequate to achieve the objectives of our Programme. At the same time, while we do not envisage that revisions will be needed, we stand ready to take any corrective actions that may become appropriate if circumstances change. We will continue to consult with staff of the European Commission, the ECB, and the IMF on the adoption of such actions in advance in the event that revision of the policies contained in this Letter and the attached Memoranda becomes necessary.

8. This letter is being copied to Mme Lagarde.

Sincerely,

/s/	/s/
Michael Noonan, T.D. Minister for Finance	Patrick Honohan Governor of the Central Bank of Ireland

Attachment V. Memorandum of Understanding on Specific Economic Policy Conditionality (European Commission)

IRELAND

MEMORANDUM OF UNDERSTANDING
ON
SPECIFIC ECONOMIC POLICY CONDITIONALITY

(SIXTH UPDATE)

13 September 2012

With regard to Council Regulation (EU) n° 407/2010 of 11 May 2010 establishing a European Financial Stabilisation Mechanism (EFSM), and in particular Article 3(5) thereof, this sixth update of the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) details the general economic policy conditions as embedded in Council Implementing Decision 2011/77/EU of 7 December 2010 on granting Union financial assistance to Ireland.

The quarterly disbursement of financial assistance from the EFSM[1] will be subject to quarterly reviews of conditionality for the duration of the programme. Release of the instalments will be based on observance of quantitative performance criteria, respect for EU Council Decisions and Recommendations in the context of the excessive deficit procedure (EDP), and a positive evaluation of progress made with respect to policy criteria in the Memorandum of Economic and Financial Policies (MEFP) and this updated MoU, which details and further specifies the criteria that will be assessed for the successive reviews up to the end of 2013. If targets are expected to be missed, additional action will be taken.

For the duration of the EU/IMF financial assistance programme the Irish authorities will take all the necessary measures to ensure a successful implementation of the programme and minimise the costs to the taxpayers, while protecting the most vulnerable. In particular, they commit to:

- Rigorously implement fiscal policy consistent with the requirements of the excessive deficit procedure. In particular, the Department of Finance and the Department of Public Expenditure and Reform will continue to ensure effective tax collection and tight supervision of expenditure commitments by the line departments to ensure that the primary deficit target in cash (see Table 1 of MEFP and the Technical Memorandum of Understanding, TMU) and the general Government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are

[1] On 28 November 2010 Eurogroup and ECOFIN Ministers issued a statement clarifying that euro-area and EU financial support will be provided on the basis of the programme which has been negotiated with the Irish authorities by the Commission and the IMF, in liaison with the ECB. Further to the Union support from the EFSM, loans from the EU and its Member States will include contributions from the European Financial Stability Facility (EFSF) and bilateral lending support from the United Kingdom, Sweden, and Denmark. The Loan Facility Agreements on these financing contributions will specify that the disbursements there under are subject to the compliance with the conditions of this Memorandum.

achieved. Any additional unplanned revenues must be allocated to debt reduction. Moreover, the nominal value of Social Welfare pensions will not be increased.

- Continue to strengthen the fiscal framework and reporting in line with that of the EU.
- Use at least half of the proceeds from state asset sales for eventual debt reduction while also reinvesting the remainder of the total realised proceeds in projects which are of a commercial nature, meet ex-ante cost benefit criteria, enhance employment and preserve long term fiscal sustainability, including Programme and EDP fiscal targets.
- Continuously monitor financial markets to exploit opportunities to return to commercial funding as soon as possible.
- Ensure that activation services are enhanced, to tackle the high and persistent rate of long-term unemployment. In particular, the Department of Social Protection will take steps to improve the ratio of vacancies filled off the live register, focus on re-training the unemployed to reduce the risk of long-term unemployment and ensure appropriate incentives through the implementation of sanctions. Generally, the government will advance its plans to introduce new activation measures building on *Pathways to Work* (the government's strategy for institutional reform of the activation system).
- Ensure that no further exemptions to the competition law framework will be granted unless they are entirely consistent with the goals of the EU/IMF Programme and the needs of the economy.
- Ensure that NAMA: (i) maintains the highest standards of governance with appropriate accountability and transparency arrangements; (ii) reduces the costs of its operations; and (iii) constructively contributes to the restoration of the Irish property market in the course of meeting the asset disposal targets established and monitored by the NAMA Board, including redemption of €7.5 billion worth of senior bonds by end 2013.
- Ensure that the restructuring of credit unions will underpin the financial stability and long term sustainability of the sector. The restructuring will be completed in as short a timeframe as possible under a clear plan identifying credit unions appropriate for restructuring, subject to Central Bank regulatory approval. As regards funding, the first call should be on the credit unions concerned or the sector as a whole; any Exchequer funding should be minimised, should be provided only in the context of a restructuring plan in compliance with EU state aid rules, and should be recouped from the sector over time. In parallel, the Central Bank will continue its inspections to determine the financial condition of the weakest credit unions, and will engage its resolution powers as needed, drawing on Resolution Fund resources if required.
- Ensure continued compliance with the minimum Core Tier 1 Capital ratio of 10.5 percent for all PCAR banks (AIB, BOI, and PTSB).

- Consult ex-ante with the European Commission, the ECB and the IMF on the adoption of policies that are not included in this Memorandum but that could have a material impact on the achievement of programme objectives.

To facilitate programme monitoring, the authorities will provide the European Commission, the ECB and the IMF with:

- All information required to monitor progress during programme implementation and to track the economic and financial situation.
- A compliance report on the fulfilment of the conditionality prior to the release of the instalments.
- Reliable and regular availability of budgetary and other data as detailed in Annex 1.

1. Actions for the eighth review (actions to be completed by end Q3-2012)

Financial sector reforms

Deleveraging

- The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

Funding and liquidity monitoring

- The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will establish an advanced monitoring framework covering in detail all factors affecting banks' Net Stable Funding Ratio (NSFR). This will enable close monitoring of progress towards the relevant Basel III requirements.

- The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.

Asset quality

- The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage portfolios in accordance with the agreed key performance indicators.

Reorganisation

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it with the staff of the European Commission, the ECB and the IMF.

- The authorities will publish the legislation to strengthen the credit union legislative framework taking account of the comprehensive recommendations in the Commission on Credit Unions Report.

- As recommended by the interim and final reports of the Commission on Credit Unions, regulations will introduce the requirement, under the terms of the Deposit Guarantee Scheme, for credit unions to maintain an amount in the Deposit Protection account at the Central Bank. The authorities will also adopt regulations underpinning the Resolution Fund Levy to recoup Exchequer resources provided for the resolution of troubled credit unions.

Financial Supervision

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the ECB and the IMF.

- The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage, and SME loan portfolios.

- Government will present to Dáil Éireann legislation to establish a statutory credit risk register.

- AIB’s new management team will update its restructuring plan to enhance revenue, reduce operating costs, and restructure operations. This plan will be submitted to the European Commission for approval under State Aid rules.

Structural reforms

Personal debt

- The authorities will ensure that a programme to facilitate access by distressed borrowers to professional financial advisory services, funded by banks, will be operational.

State assets

- Building on the indicative timetable for asset sales provided at end-Q2 2012, the government will provide a progress report for each asset and/or group of assets identified for disposal. This report will cover both progress achieved and remaining steps towards the point of sale.

Efficient social support expenditure

Building on the progress so far and on the data provided at end-June 2012, the Department of Social Protection will:

- continue: (i) the introduction of one-stop shops, (ii) employer engagement by the National Employment and Entitlement Services (NEES); and (iii) the roll-out of job matching;

- continuously monitor the performance of the activation system and report to the staff of the European Commission, the IMF, and the ECB on progress on:
    - Reducing the average duration of staying on the live register
    - Increasing the fraction of vacancies filled off the live register
    - Ensuring engagement with employment services as a pre-condition for receipt of jobseeker payments

- Carrying out profiling, group and individual engagement through interviews
- Increasing the number of unemployed referred to training courses and employment supports
- Providing data on live register broken down by continuous duration, and on probability of exit by various durations
- Providing summary statistics on those in receipt of penalty sanctions by duration of unemployment and prioritise progress on data analysis by exit destination and length of penalty period.

- Report to the staff of the European Commission, the IMF, and the ECB on continued progress on implementing an improved data collection system to enable ongoing evaluation of activation and training policies, in light of the March 2012 external evaluation.

- In the context of Budget 2013, the Department of Social Protection (DSP) will present options to Government for consideration, having regard, inter alia, to the results of the July 2012 actuarial review of the social insurance fund. The DECLG and DSP will also report on the housing assistance reform, in particular on the introduction of the new Housing Assistance Payment.

Health sector

- Authorities to specify quantified measures to eliminate the spending overrun by year end.

Labour market reform

- The authorities will further advance the passage of the Industrial Relations (Amendment) Bill 2011 through the parliamentary process.

Utilities sector

- Building on the high level implementation strategy provided at end-Q2 2012, the authorities will report on progress for the transfer of water services provision from local authorities to Irish Water and the roll-out of a domestic water metering programme with a view to start charging by the end of the EU-IMF programme period. The authorities will also consider and provide an update on the general government debt and deficit treatment implications of establishment of Irish Water.

Structural fiscal reforms

Fiscal framework

- The Government will publish legislation to anchor its already operational multi-annual expenditure limits.

- Government will publish draft legislation which enshrines the commitment to sound public finances, gives statutory basis to the Irish Fiscal Advisory Council and provides for the Council's independence and adequate resourcing.

2. Actions for the ninth review (actions to be completed by end Q4-2012)

Fiscal consolidation

- Taking account of the European Semester, Government will publish a budget for 2013 aiming for a further reduction of the General Government deficit in line with the fiscal targets set out in the Council Recommendation in the context of the excessive deficit procedure.

- On the basis of the aggregate budgetary projections set out in the Medium Term Fiscal Statement (MTFS) of November 2011, consolidation measures for 2013 will amount to at least €3.5 billion. The following measures are proposed for 2013 on the basis of the MTFS:

  - Revenue measures to raise at least €1.25 billion[2], including:
    - A broadening of personal income tax base.
    - A value-based property tax.
    - A restructuring of motor taxation.
    - A reduction in general tax expenditures.
    - An increase in excise duty and other indirect taxes.
  - Expenditure reductions necessary to achieve an upper limit on voted expenditure of €54 billion, which will involve consolidation measures of €2.25 billion on the basis of the MTFS, including:
    - Social expenditure reductions.
    - Reduction in the total pay and pensions bill.
    - Other programme expenditure, and reductions in capital expenditure.

Without prejudice to the minimum consolidation amount referred to in the previous paragraph and to the requirements to achieve the agreed fiscal targets, the Government may, in consultation with the staff of the European Commission, the IMF, and the ECB, substitute one or more of the above measures with others of equally good quality based on the options identified in the Comprehensive Review of Expenditure (CRE).

Financial sector reforms

Capital assessment

- The authorities will provide the staff of the European Commission, the ECB and the IMF a review of developments in the covered banks relative to PCAR 2011 by end-November. Overall results of this work will be published. The authorities will agree with the staff of the European Commission, the ECB and the IMF on the specific details of the review.

Deleveraging

[2] Inclusive of carryover from 2012.

- The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

Funding and liquidity monitoring

- The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.

Asset quality

- The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage portfolios in accordance with the agreed key performance indicators. A set of key performance indicators for SMEs will also be developed.

Liquidity buffers

- Following finalisation of the Capital Requirements Directive legislative text, the authorities will establish draft guidance for the creation and subsequent holding of liquidity buffers by banks for issue in advance of the entry into force of the regulations.

Reorganisation

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it together with the staff of the European Commission, the IMF, and the ECB.

Financial Supervision

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland’s action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the ECB and the IMF.

- The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage and SME loan portfolios.

Structural reforms

Competition

- On the basis of a report from authorities on developments to be provided by end Q4 2012, the authorities in consultation with staff of the European Commission, IMF and the ECB will review whether sufficient progress has been made toward the goal of strengthening competition law enforcement by ensuring the availability of effective sanctions for infringements of Irish competition law and Articles 101 and 102 of the Treaty on the Functioning of the European Union and the functioning of the Competition Authority, and whether additional measures will be required.

Efficient social support expenditure

- The authorities will provide an evaluation of progress in relation to labour market activation measures to enable the unemployed to return to active employment against the targets set out in the 'Pathways to Work' plan.

State asset disposals

- Government will complete, if necessary, relevant regulatory, legislative, corporate governance and financial reforms required to bring to the point of sale the assets it has identified for disposal. For each asset and/or group of assets, the government will provide a report to the staff of the European Commission, the IMF, and the ECB on progress achieved and remaining steps towards to the point of sale.

3. Actions for the tenth review (actions to be completed by end Q1-2013)

Financial sector reforms

Capitalisation

- The authorities will report on the evolution of regulatory capital within the PCAR banks up to the end of December 2012, and will present and discuss their findings with the staff of the European Commission, the IMF, and the ECB.

Capital assessment

- The authorities will agree with the staff of the European Commission, the ECB and IMF on the specific features of the methodology.

Deleveraging

- The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

Funding and liquidity monitoring

- The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.

- In addition, the authorities will monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

Asset quality

- The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators.

Reorganisation

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit

union sector, and discuss it with the staff of the European Commission, the IMF, and the ECB.

Financial supervision

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it with the staff of the European Commission, the IMF, and the ECB.

- The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage, and SME loan portfolios.

- The authorities will review the implementation of the 2011 CBI Provisioning and Disclosure guidelines by the covered banks.

4. Actions for the eleventh review (actions to be completed by end Q2-2013)

Financial sector reforms

Capital assessment

- The authorities will complete the PCAR 2013. Building on the outcomes from PCAR 2011 and the FMP 2012, the authorities will conduct another rigorous stress test and this will continue to be based on robust loan-loss forecasts and a high level of transparency. This stress test will draw on our assessment of the banks' calculation of risk weighted assets, loan loss forecasting, and capital modelling. The stress test will focus on the bank balance sheets following the implementation of technical work addressing legacy and nonperforming loans. Before publication, the results of the PCAR 2013 will be discussed with the staff of European Commission, the IMF, and the ECB and will be aligned with the timing of the next EBA exercise. The results and methodology will be published in full and on a bank-by-bank basis, and the authorities will accordingly ensure that banks are adequately capitalised.

Deleveraging

- The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

Funding and liquidity monitoring

- The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.

- The authorities will also monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

Asset quality

- The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators.

Reorganisation

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it together with the staff of the European Commission, the IMF, and the ECB.

Financial supervision

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the IMF, and the ECB.
- The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage, and SME loan portfolios.

Structural reforms

State assets

- The authorities will report to the staff of the European Commission, the IMF, and the ECB on the quantum of the proceeds of any realised asset sales to date. For assets yet to be disposed, the authorities will report on progress made and remaining steps.

Labour market reform

- The authorities will report to the staff of the European Commission, the IMF, and the ECB on the impact on the labour market of reforms to sectoral wage-setting mechanisms undertaken under the programme.

5. Actions for the twelfth review (actions to be completed by end Q3-2013)

Financial sector reforms

Capital assessment

- The authorities will report on the evolution of regulatory capital up to the end of June 2013, within the banks covered by the PCAR and will present and discuss their findings with the staff of the European Commission, the IMF, and the ECB.

Deleveraging

- The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures

Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

Funding and liquidity monitoring

- The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.

- In addition, the authorities will monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

Asset quality

- The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators.

Reorganisation

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it together with the European Commission, the IMF, and the ECB.

Financial Supervision

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland’s action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the IMF, and the ECB.

- The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage and SME loan portfolios.

6. Actions for the thirteenth review (actions to be completed by end Q4-2013)

Financial sector reforms

Deleveraging

- The authorities will produce a final report of the banks' implementation of their deleveraging plans under the PLAR 2011. Their compliance with the asset disposal and run-off targets in nominal value terms will be discussed with the staff of the European Commission, the IMF, and the ECB.

- The authorities will produce a final report on progress towards compliance with Basel III liquidity and funding requirements by the relevant dates.

- The authorities will also monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

Asset quality

- The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators.

Reorganisation

- The authorities will provide a final report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it together with the European Commission, the IMF, and the ECB.

Financial Supervision

- The authorities will present a final comprehensive report on progress in implementing the Central Bank of Ireland’s action plan for strengthening supervision of credit institutions and discuss it together with the European Commission, the IMF, and the ECB.

- The authorities will provide a final report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage, and SME loan portfolios.

- The authorities will ensure that the statutory credit risk register is operational.

Annex 1. Provision of data

During the programme, the following indicators and reports shall be made available to the staff of the European Commission, the IMF, and the ECB by the Irish authorities on a regular basis. The External Programme Compliance Unit (EPCU) of the Department of Finance will coordinate and collect data and information and forward to the staff of the European Commission, the IMF, and the ECB.

To be provided by the Department of Finance in consultation with the Department of Public Expenditure and Reform as appropriate		
Ref.	Report	Frequency
F.1	Monthly data on adherence to budget targets (Exchequer statement, details on Exchequer revenues and expenditure with information on Social Insurance Fund to follow as soon as practicable).	Monthly, 10 days after the end of each month
F.2	Updated monthly report on the Exchequer Balance and General Government Balance outlook for the remainder of the year which shows transition from the Exchequer Balance to the General Government Balance (using presentation in Table 1 and Table 2A of the EDP notification).	Monthly, 20 days after the end of each month
F.3	Quarterly data on main revenue and expenditure items of local Government.	Quarterly, 90 days after the end of each quarter
F.4	Quarterly data on the public service wage bill, number of employees and average wage (using the presentation of the Pay and Pension Bill with further details on pay and pension costs of local authorities).	Quarterly, 30 days after the end of each quarter
F.5	Quarterly data on general Government accounts, and general Government debt as per the relevant EU regulations on statistics.	Quarterly accrual data, 90 days after the end of each quarter
F.6	Updated annual plans of the general Government balance and its breakdown into revenue and expenditure components for the current year and the following four years, using presentation in the stability programme's standard table on general Government budgetary prospects.	30 days after EDP notifications
F.7	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for Non-Commercial State Agencies	Quarterly , 30 working days after the end of each quarter
F.8	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for local authorities	Quarterly , 30 working days after the end of each quarter
F.9	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months for State- owned commercial enterprises (interest and amortisation)	Quarterly, 30 working days after the end of each quarter

F.10	Assessment report of the management of activation policies and on the outcome of job seekers' search activities and participation in labour market programmes.	Quarterly, 30 working days after the end of each quarter.
To be provided by the NTMA		
N.1	Monthly information on the central Government's cash position with indication of sources as well of number of days covered	Monthly, three working days after the end of each month
N.2	Data on below-the-line financing for central Government.	Monthly, no later than 15 working days after the end of each month
N.3	Data on the National Debt	Monthly, 15 working days after the end of each month
N.4	Data on short-, medium- and long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for the National Debt.	Monthly, 30 working days after the end of each month
N.5	Updated estimates of financial sources (bonds issuance, other financing sources) for the Exchequer Borrowing Requirement / National Debt in the next 12 months	Monthly, 30 working days after the end of each month
To be provided by the Central Bank of Ireland		
C.1	The Central Bank of Ireland's balance sheet.	Weekly, next working day
C.2	Individual maturity profiles (amortisation only) for each of the domestic banks will be provided as of the last Friday of each month	Monthly, 30 working days after each month end.
C.3	Detailed financial and regulatory information (consolidated data) on domestic individual Irish banks and the banking sector in total especially regarding profitability (P&L), balance sheet, asset quality, regulatory capital; PLAR funding plan forecasts including LDR, NSFR and LCR outturns and forecasts.	Quarterly, 40 working days after the end of each quarter
C.4	Detailed information on deposits for the last Friday of each month.	Monthly, 30 working days after each month end.
C.5	Data on liabilities covered under the ELG Scheme for each of the Covered Institutions.	Monthly, 30 working days after each month end.
C.6	Deleveraging committee minutes from the banks and deleveraging sales progress sheets, detailing pricing, quantum, and other relevant result metrics.	Monthly, reflecting committee meetings held each month
C.7	Deleveraging reports including (i) progress achieved towards deleveraging in line with the 2011 Financial Measures Programme; and (ii) actual and planned asset disposals.	Quarterly, 40 working days after the end of the reference period.

INTERNATIONAL MONETARY FUND

IRELAND

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 21, 2012

Prepared By | European Department

CONTENTS

FUND RELATIONS

(As of July 31, 2012)

I. **Membership Status:** Joined August 8, 1957; Article VIII

II. General Resources Account:	SDR Million	Percent of Quota
Quota	1,257.60	100.00
Fund holdings of currency	16,026.48	1,274.37
Reserve position in Fund	258.57	20.56

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	775.42	100.00
Holdings	644.24	83.08

IV. Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Extended Arrangement	15,027.43	1,194.93

V. **Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	12/16/10	12/15/13	19,465.80	15,027.43

VI. **Projected Payments to the Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	2012	2013	2014	2015	2016
Principal				535.20	2,173.15
Charges/Interest	192.01	388.84	477.51	496.56	450.06
Total	192.01	388.84	477.51	1031.76	2623.22

VII. **Exchange Rate Arrangement and Exchange Restrictions:**

Ireland's currency is the euro, which floats freely and independently against other currencies. Ireland has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on payments and transfers for current international transactions, other than restrictions notified to the Fund under Decision No. 144 (52/51).

VIII. Safeguards Assessment:

The safeguards assessment of the Central Bank of Ireland (CBI) found that the CBI has a relatively strong safeguards framework in place. Its financial statements are audited in accordance with international standards and published. Governance and control systems adhere to good practices. The assessment recommended measures to address heightened risks emanating from the financial crisis, notably liquidity lending, and to improve transparency. Recommendations were also made to strengthen the de-jure autonomy of the central bank. Progress has been made in implementing these recommendations: the CBI has strengthened internal governance and control procedures for ELA; brought forward the publication dates for its audited financial accounts; clarified its accounting framework for areas not covered by ECB guidelines; and formally approved revised investment guidelines. The CBI and DoF are considering how to strengthen the arrangements for financial autonomy of the CBI, which may require changes to central bank legislation and changes in other related regulations, which would be prepared in consultation with the ECB.

IX. Article IV Consultations:

The last Article IV consultation was concluded on July 7, 2010 (IMF Country Report No. 10/209). Article IV consultations with Ireland are on the 24-month cycle during the Extended Arrangement.

X. Seventh Review Under the Extended Arrangement:

Discussions were held in Dublin during July 3–19, 2012. The IMF team comprised Craig Beaumont (head), Jochen Andritzky, Ashok Bhatia, Peter Breuer (Resident Representative), Alexandre Chailloux, Johan Mathisen, and Emilia Jurzyk (all EUR); Olga Stankova (EXR); S.M. Ali Abbas (FAD); Maike Luedersen (LEG); Luis Cortavarría, Joaquin Gutierrez Garcia, and Michael Moore (all MCM); and Gavin Gray (SPR). Teams from the EC and ECB as well as Mary O'Dea and Peter McGoldrick from the Executive Director's office participated in the discussions. The mission met with the Minister for Finance, the Minister for Public Expenditure and Reform, the Governor of the Central Bank and the Deputy Governor for Financial Regulation, the Chief Executive of the National Treasury Management Agency, the Chief Executive of the National Asset Management Agency, and senior officials from these institutions. The mission also met with representatives of the Irish Fiscal Advisory Council; the Department of Jobs, Enterprise and Innovation; the Department of Justice and Equality; the Department of Social Protection; the Economic and Social Research Institute; banks and market analysts.

XI. Technical Assistance:

Department	Purpose	Date
STA	Balance of Payments Statistics	January 2011
STA	Monetary and Financial Statistics	January 2011

XII. Resident Representative:

Mr. Peter Breuer assumed his position in September 2011.

STATISTICAL ISSUES

A. Assessment of Data Adequacy for Surveillance

General: Data provision is broadly adequate for surveillance.

National accounts and real sector data. Quarterly national accounts are currently published within three months of its reference period. Other real sector data are relatively timely, with industrial production and retail sales data published within six weeks and employment data within 3 months of the reference period, but some non-SDDS series are published one and a half years later (e.g., household disposable income). Employment and unit labor costs, and national income and expenditure data are usually available with a three-month lag.

Wages and earnings statistics. The quarterly Earnings, Hours and Employment Costs Survey has replaced the four-yearly Labor Cost Survey, and also replaces all other existing short-term earnings surveys. The results are comparable across sectors and include more detail on components of earnings and labor costs than was available before. However, data are only available with more than six months lag.

Government finance statistics. The authorities publish Exchequer returns on a monthly and quarterly basis, but only annual data are available for general government finances. The authorities are working to strengthen the analytical content of exchequer reporting and enhancing reporting and forecasting for the general government.

External data. Quarterly balance of payments data are compiled by the Central Statistics Office and are based on statistical surveys combined with administrative data. These data are closely integrated with the compilation of national accounts and are in line with the Balance of Payments Manual, Fifth edition (BPM5), although the historical data covers only years starting from 1998. Furthermore, some discrepancies remain between exports and imports data from the national accounts and the balance of payments. Data on the international investment position are published with a six months lag.

B. Data Standards and Quality

Ireland is subject to the statistical requirements and timeliness and reporting standards of Eurostat and the European Central Bank (ECB). Ireland subscribes to the Fund's Special Data Dissemination Standard and uses SDDS flexibility option on the timeliness of the wages and earnings and central government debt data.	No data ROSC is available.

Ireland: Table of Common Indicators Required for Surveillance
(as of August 2, 2012)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	8/2/2012	8/2/2012	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	June 2012	8/01/2012	M	M	M
Reserve/Base Money	June 2012	8/01/2012	M	M	M
Broad Money	June 2012	8/01/2012	M	M	M
Central Bank Balance Sheet	June2012	07/13/2012	M	M	M
Consolidated Balance Sheet of the Banking System	June 2012	07/06/2012	M	M	M
Interest Rates[2]	8/2/2012	8/2/2012	D	D	D
Consumer Price Index	June 2012	7/12/2012	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2011	5/15/2012	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	June 2012	7/4/2012	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2012:Q1	5/15/2012	Q	Q	Q
External Current Account Balance	2012:Q1	7/12/2012	Q	Q	Q
Exports and Imports of Goods and Services	2012:Q1	7/12/2012	Q	Q	Q
GDP/GNP	2012:Q1	7/12/2012	Q	Q	Q
Gross External Debt	2012:Q1	8/2/2012	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Not Available (NA).

INTERNATIONAL MONETARY FUND

IRELAND

Staff Report for the 2012 Article IV Consultation and Seventh Review Under the Extended Arrangement—Supplementary Information

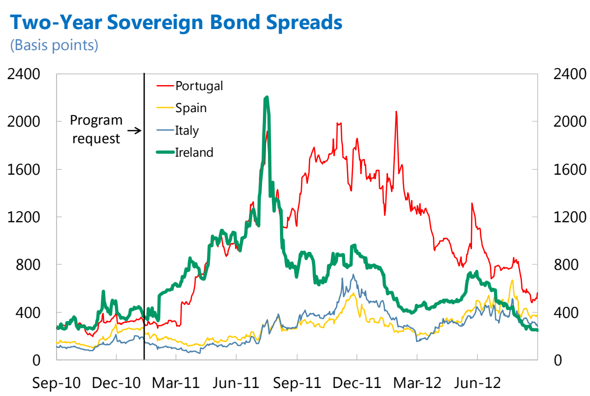
Prepared by the European Department
(In consultation with other departments)

Approved by Ajai Chopra and Lorenzo Giorgianni

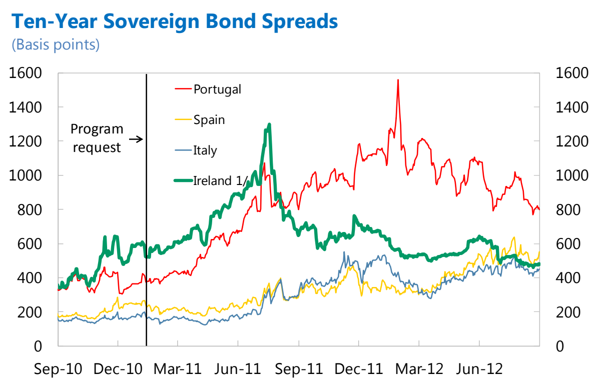
August 31, 2012

1. **This supplement provides an update on economic and financial developments since the issuance of the staff reports on August 22, 2012 (EBS/12/102 and SM/12/220).** The additional information does not change the thrust of the staff appraisal.

2. **Following sales of Treasury bills and bonds in July, the government has recently placed €1.0 billion of long-term amortizing bonds at an average yield of 5.91 percent.** On August 23, the National Treasury Management Agency sold a series of amortizing bonds, with final maturity dates ranging from 15 to 35 years in a fixed price tap offer, meeting the needs of the Irish pension industry to match their pension liabilities.[1] The total take-up is €0.4 billion higher than assumed in Table 1 of the Seventh Review, further enhancing the cash balance and reducing future funding needs. Since the staff reports were issued, Irish bond spreads have been broadly stable, after declining significantly from late June.



Sources: Bloomberg; and IMF staff calculations.



Sources: Bloomberg; and IMF staff calculations.
1/ Irish 9-year government bond yield spread over 9-year bund.

3. **Recent real sector indicators appear consistent with staff projections for modest growth in 2012.** Consumer sentiment improved further in August, to its highest level in almost 5 years, and retail sales (excluding motor vehicles) rebounded by 1.1 percent m/m in

[1] Detailed results are provided at NTMA sells €1 billion of new Irish Amortising Bonds at 5.91%.

July, partly reversing a most likely weather-driven fall in June. In annual terms, retail sales declined 1.4 percent in the first seven months, which is consistent with the projected decline in private consumption. Wages and working hours remained essentially flat in Q2 from a year earlier, but significant differences in wage growth across sectors exist, with wages in the accommodation and food industry falling over 5½ percent y/y while the science and technology sector registered an almost 6 percent y/y wage increase.

4. **The rate of decline in house prices slowed to 13.6 percent y/y.** Residential property prices rose 0.2 percent in July, with the monthly increase led by price increases outside Dublin. However, signs of bottoming out in the housing market remain limited to houses in Dublin; since the start of 2012 house prices have been broadly flat in Dublin, while Dublin apartment prices have fallen 10 percent during January to July 2012, and residential property values outside Dublin declined by 6 percent in the same period.

5. **Residential mortgages arrears continued to increase in the second quarter, with almost 15 percent of mortgages (by value) on owner occupied dwellings in arrears.** The increase in arrears and restructuring appears to be slowing modestly in recent quarters, and the level of arrears remains within the adverse scenario of the Prudential Capital Assessment Review (PCAR). The number of repossessed or surrendered properties increased by 146 to a cumulative 1498 since 2009Q3. Census data from 2011 show that among households with mortgages, 8.7 percent of primary income earners are without a job, highlighting the nexus between unemployment and mortgage arrears.

Ireland: Residential Mortgage Arrears (billions of euros)

	Dec-09	Dec-10	Dec-11	Mar-12	Jun-12
Outstanding	118.3	116.7	113.5	112.7	112.0
Mortgage loans in arrears over 90 days 1/	5.3	8.6	13.9	15.4	16.5
in percent of outstanding	4.5	7.4	12.3	13.7	14.7
Restructured mortgages	n.a.	10.4	13.3	14.2	15.1
in percent of outstanding	n.a.	8.9	11.7	12.6	13.5
Repossessions and voluntary surrenders 2/	211	574	1,182	1,352	1,498

Source: Central Bank of Ireland.
1/ Includes restructured mortgages in arrears over 90 days.
2/ Cumulative number since 2009Q3

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 12/xx
FOR IMMEDIATE RELEASE
[September X, 2012]

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2012 Article IV Consultation with Ireland

On September 5, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Ireland.[1]

Background

Since the last Article IV consultation in mid-2010, the Irish government has faced a loss of access to market financing resulting in a need to draw on financial support from the EU-IMF from late 2010. This development was the culmination of an exceptionally deep banking crisis associated with the bursting of a commercial and residential property bubble. The economic impact was severe, with real GDP contracting 8 percent during 2008-10, the CPI deflating by 5½ percent, unemployment jumping sharply to recently approach 15 percent, and house prices falling to half of their peak levels. Slumping revenues resulted in the fiscal deficit widening to over 10 percent of GDP in 2009-10, and large loan losses in the banking system required public support of some 40 percent of GDP, contributing substantially to the dramatic rise in public debt from 25 percent of GDP in 2007 to about 118 percent in 2012.

The Irish authorities' key policy goals are to repair the banking system so that it is able to support economic recovery, put the public finances on a sound footing, and to foster domestic activity and job creation by implementing structural reforms. The authorities have decisively implemented their strategy to reorganize, recapitalize, and downsize the banking system,

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

succeeding in restoring strong capital ratios and stabilizing deposits. Nonetheless, nonperforming loans have risen to high levels and bank profitability and lending is weak. In particular, the share of the principal of owner occupied residential mortgage loans in arrears has risen to almost 15 percent, reflecting the household debt burdens of some 210 percent of disposable income and high unemployment.

Fiscal consolidation was well underway before the EU-IMF support program, with cumulative budget measures during 2009-12 reducing the structural primary deficit by some 8 percent of GDP. In 2012, the budget is on track to reach the 8.6 percent of GDP deficit target. The authorities are committed to the medium-term goal of reducing the deficit to below 3 percent of GDP by 2015, and the Medium-term Fiscal Statement of November 2011 indicates that this will entail a 5 percent of GDP consolidation during 2013-15.

Aided by a significant unwinding of competitiveness losses during the boom, Ireland returned to export-led growth of 1.4 percent in 2011. Yet, domestic demand continued to decline as domestic and external uncertainties hinder investment, households seek to reduce debt burdens, and fiscal adjustment continues. A weakening in trading partner growth is expected to slow Ireland's growth to about 0.4 percent in 2012, and growth projections for 2013 have eased to about 1.4 percent owing to a slower rebound in exports and recovery in domestic demand.

Executive Board Assessment

Executive Directors commended the authorities for their strong ownership and steadfast implementation of the program, particularly financial sector reform and fiscal consolidation. The economy has resumed modest growth, but downside risks remain high, and substantial and difficult further policy efforts are needed to promote a sustained economic recovery.

Against this backdrop, Directors welcomed the authorities' determination to put the public finances on a sound footing, repair the banking system so that it can support economic recovery, and implement structural reforms to boost domestic activity and job creation. They agreed that the prospects for the success of Ireland's strong policy implementation hinge on recovery across the region and continued progress at the European level to ensure the stability of the euro area. Directors welcomed the June 29 statement by euro area leaders to further improve the sustainability of Ireland's well-performing program, which has been instrumental in the country's recent successful return to the sovereign bond market. They looked forward to a timely agreement on concrete steps that would break the vicious circle between banks and the sovereign.

Directors commended the determined actions taken by the authorities to restructure, downsize, and recapitalize banks. To restore banks' ability to provide sound credit and help revive domestic demand, they emphasized the need to arrest the deterioration in bank asset quality and regain bank profitability. Directors supported continued supervisory engagement to promote banks' implementation of durable solutions for households' mortgage arrears and advancing a

similar approach for loans to SMEs. They considered that reforms of the personal insolvency framework would help address debt distress while preserving debt service discipline, and that the repossession framework should complement these reforms. Noting euro area steps toward enabling the ESM to recapitalize banks directly, along with the creation of a single supervisory mechanism, Directors concurred that temporary ESM ownership of Irish banks could reduce funding costs, boosting their profitability and ability to support economic recovery.

Directors commended the substantial fiscal consolidation already implemented, but stressed that significant efforts are still needed to bring the deficit below 3 percent of GDP by 2015. They called for high quality expenditure and revenue measures that would be growth friendly, durable and equitable. Directors concurred that better targeting of spending, including on state pensions, could deliver more immediate savings while protecting the most vulnerable. In addition, they supported deeper reforms of key government services to produce medium-term savings, especially health and education services, and highlighted that the public service agreement should facilitate these reforms. Nonetheless, further reductions in public sector wages might also be needed if wage bill targets cannot be met while protecting public services. On the revenue front, Directors saw merit in broadening the tax base, including by introducing a value-based property tax.

Directors agreed that reducing the high level of unemployment remains critical, and supported the infrastructure stimulus package. They particularly saw a need to contain structural unemployment and encouraged reallocating resources to services to help job seekers regain work together with reforms to the structure of social benefits. Facilitating mobility across sectors will need effective education and training policies and regular monitoring of outcomes, and will be aided by recent legislative reforms of sectoral wage setting.

Table 1. Ireland: Selected Economic Indicators, 2008–13
(Annual percentage change unless indicated otherwise)

	2008	2009	2010	2011	2012	2013
					Proj	
National accounts (constant prices)						
Real GDP	-2.1	-5.5	-0.8	1.4	0.4	1.4
Domestic demand	-3.7	-11.0	-4.3	-3.7	-2.3	-0.5
Private consumption	-0.1	-5.4	1.0	-2.4	-1.9	-0.2
Public consumption	0.6	-4.4	-6.5	-4.3	-2.5	-2.0
Gross fixed investment	-10.0	-27.6	-22.6	-12.6	-4.0	0.0
Net exports 1/	1.4	4.5	3.0	5.4	2.1	1.8
Exports of goods and services	-1.1	-3.8	6.2	5.1	2.8	3.5
Imports of goods and services	-3.0	-9.7	3.6	-0.3	1.0	2.4
Real GNP	-1.8	-8.1	0.9	-2.5	-0.6	0.7
Gross national saving (in percent of GDP)	16.1	12.6	12.8	11.4	11.6	12.3
Private	18.9	20.8	21.3	19.8	19.5	19.7
Public	-2.8	-8.2	-8.6	-8.4	-7.9	-7.4
Gross investment (in percent of GDP)	21.8	15.0	11.6	10.3	9.8	9.6
Private	16.4	10.9	7.9	7.6	7.8	7.7
Public	5.4	4.0	3.7	2.7	1.9	1.9
Prices, wages and employment (annual average)						
Harmonized index of consumer prices	3.1	-1.7	-1.6	1.1	1.4	1.0
Average wage, whole economy	3.5	-0.1	-2.2	-0.7	0.3	0.8
Employment	-1.1	-8.1	-4.2	-2.1	-0.8	0.4
Unemployment rate (in percent)	6.3	11.8	13.6	14.4	14.8	14.4
Money and credit (end-period) 2/						
Irish resident private sector credit 3/	8.8	-1.7	-3.7	-2.9	-3.3	...
Financial and asset markets (end-period) 2/						
Three-month interbank rate	2.9	0.7	1.0	1.4	0.7	...
Government bond yield (in percent, 10-year) 4/	4.4	4.9	9.2	8.5	6.2	...
Annual change in ISEQ index (in percent)	-33.8	-23.4	13.2	3.0	7.3	...
House prices	-5.9	-18.3	-13.1	-13.2	-14.4	...
Public finance (in percent of GDP)						
General government balance 5/	-7.3	-13.9	-30.9	-12.8	-8.3	-7.5
General government balance (excl. bank support)	-7.3	-11.5	-11.2	-9.1	-8.3	-7.5
Primary balance (excl. bank support)	-6.0	-9.4	-8.1	-5.9	-4.3	-2.1
General government gross debt	44.5	64.9	92.2	106.5	117.7	119.3
General government net debt	24.6	42.0	74.7	94.9	103.0	107.6
Balance of goods and services	9.0	15.9	18.6	21.9	24.1	25.7
Balance of income and current transfers	-14.7	-18.2	-17.5	-20.8	-22.3	-23.0
Current account	-5.7	-2.3	1.1	1.1	1.8	2.7
Nominal	111.6	112.5	107.8	108.6	105.5	...
Real (CPI based)	123.1	121.0	111.6	110.2	107.1	...
Memorandum items:						
Population (in millions) 6/	4.4	4.5	4.5	4.6	4.6	4.5
GDP per capita (in euros)	40,452	36,166	35,003	34,705	35,367	36,641
GDP (in billions of euros)	178.9	161.3	156.5	159.0	161.7	165.9

Sources: Bloomberg; Central Bank of Ireland; Department of Finance; International Financial Statistics; and IMF staff estimates.

1/ Contribution to growth.

2/ 2012 column refers to the latest available information: end-March fpr resident private sector credit, end-April for the competitiveness indicators, end-May for the three-month interbank rate, and end-June for other indicators.

3/ Adjusted growth rate of credit to households and non-financial corporations.

4/ For 2011, 9 year government bond yield is shown as no 10 year benchmark exists.

5/ General government balance per ESA95 definition.

6/ 2011 figure revised following prelimary results from the 2011 Census, 2007–10 to be revised when available.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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IMF Completes Seventh Review Under the Extended Arrangement with Ireland and Approves €0.92 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the seventh review of Ireland's performance under an economic program supported by a three-year, SDR 19.47 billion (about €23.55 billion or about US$29.62 billion) arrangement under the Extended Fund Facility (EFF), or the equivalent of about 1,548 percent of Ireland's IMF quota. The completion of the review enables the disbursement of an amount equivalent to SDR 0.76 billion (about €0.92 billion or about US$1.15 billion), bringing total disbursements under the EFF to SDR 15.79 billion (about €19.1 billion or about US$24.02 billion).

The Executive Board also completed today the 2012 Article IV Consultation with Ireland, which discusses economic policies from a medium-term perspective. The Article IV consultation occurs on an annual or biannual cycle for all IMF member countries, and this consultation is distinct from Ireland's program supported by the EU and IMF.

The arrangement for Ireland, which was approved on December 16, 2010 (see Press Release No. 10/496), is part of a financing package amounting to €85 billion (about US$106.91 billion), also supported by the European Financial Stabilization Mechanism and European Financial Stability Facility, bilateral loans from Denmark, Sweden, and the United Kingdom, and Ireland's own contributions.

Despite considerable headwinds from an adverse global economic outlook and the ongoing euro area crisis, the Irish authorities have pressed forward with implementing their economic program. All end-June 2012 performance criteria and indicative targets for the seventh review were met, and two structural benchmarks were observed, including a benchmark for end-September on the introduction of a fiscal responsibility bill to parliament.

The 2012 budget remains on track for the fiscal deficit target of 8.6 percent of GDP, despite a slowing in real GDP growth from 1.4 percent y/y in 2011 to a projected ½ percent in 2012 owing to weaker trading partner growth. In the year through July, the exchequer primary

deficit was 0.7 percent of GDP below that in the corresponding period of 2011. Income tax, VAT, and corporation tax collections were ahead of expectations, yet this over performance was partly offset by higher health spending and unemployment benefits. The authorities have announced corrective measures for health spending.

Financial sector reforms have continued to advance, with the authorities submitting a restructuring plan for Permanent TSB to the European Commission, and they are preparing a roadmap to wean banks off the costly Eligible Liabilities Guarantee (ELG) scheme while preserving financial stability. The authorities introduced a personal insolvency bill to parliament at end June, and, at the Central Bank's request, banks are preparing to roll out a set of loan modification options to address rising mortgage arrears.

On June 29, Euro Area leaders stated that the Eurogroup will examine the situation of the Irish financial sector with the view of further improving the sustainability of the country's well-performing adjustment program. This positive signal helped the Irish government return to sovereign debt markets, by raising €4.2 billion of new funds in 5-year and 8-year bond financing in July, with the bulk of the issuance taken up by foreign investors. A further €1.0 billion in 15 to 35 year amortizing bonds was issued in August, tailored to meet domestic pension fund needs.

Following the Executive Board's discussion, Mr. David Lipton, First Deputy Managing Director and Acting Chair, said:

"Half way through Ireland's extended arrangement, the Irish authorities maintain strong ownership and implementation of their adjustment program. All program targets for end June have been met. Benefitting from the strengthened European support signaled at the euro area summit at end June, Irish bond yields have declined significantly in recent months, and the country regained access to sovereign bond markets in July.

"Nonetheless, the economic recovery is tentative and unemployment unacceptably high. Putting the financial sector into a position to support the recovery will require continuing efforts to return banks to profitability. Lowering funding costs by weaning banks off the costly Eligible Liability Guarantee scheme in an orderly manner is essential, as is reducing operational costs. The implementation of strategies to deal with mortgage arrears needs to continue to move ahead, so the CBI's plans to monitor banks' progress are welcome, and similar frameworks are needed for distressed credit to SMEs. To support these efforts, key issues for the effective operation of the new personal insolvency framework should be addressed in a timely manner.

"Sound budget management has continued in 2012 and the authorities should ensure the effectiveness of measures to contain health expenditure overruns. Yet significant further consolidation is necessary, so the fiscal responsibility bill and other enhancements of the

budgetary framework are welcome. The 2013 budget should focus on high quality measures that are durable and equitable, and also provide greater clarity on measures to be adopted in later years.

"Ireland's rapid return to market financing following the June 29 statement by euro area leaders confirms the benefits of steps to improve Ireland's debt sustainability and break the vicious circle between the banks and the sovereign. Timely agreement on such steps, especially ESM investments in the equity of Irish banks, offers real prospects for Ireland to durably exit its reliance on official financing, benefiting Europe as well as Ireland," Mr. Lipton said.